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# THE PRINCIPLES OF WEALTH AND WELFARE

ECONOMICS FOR HIGH SCHOOLS

BY

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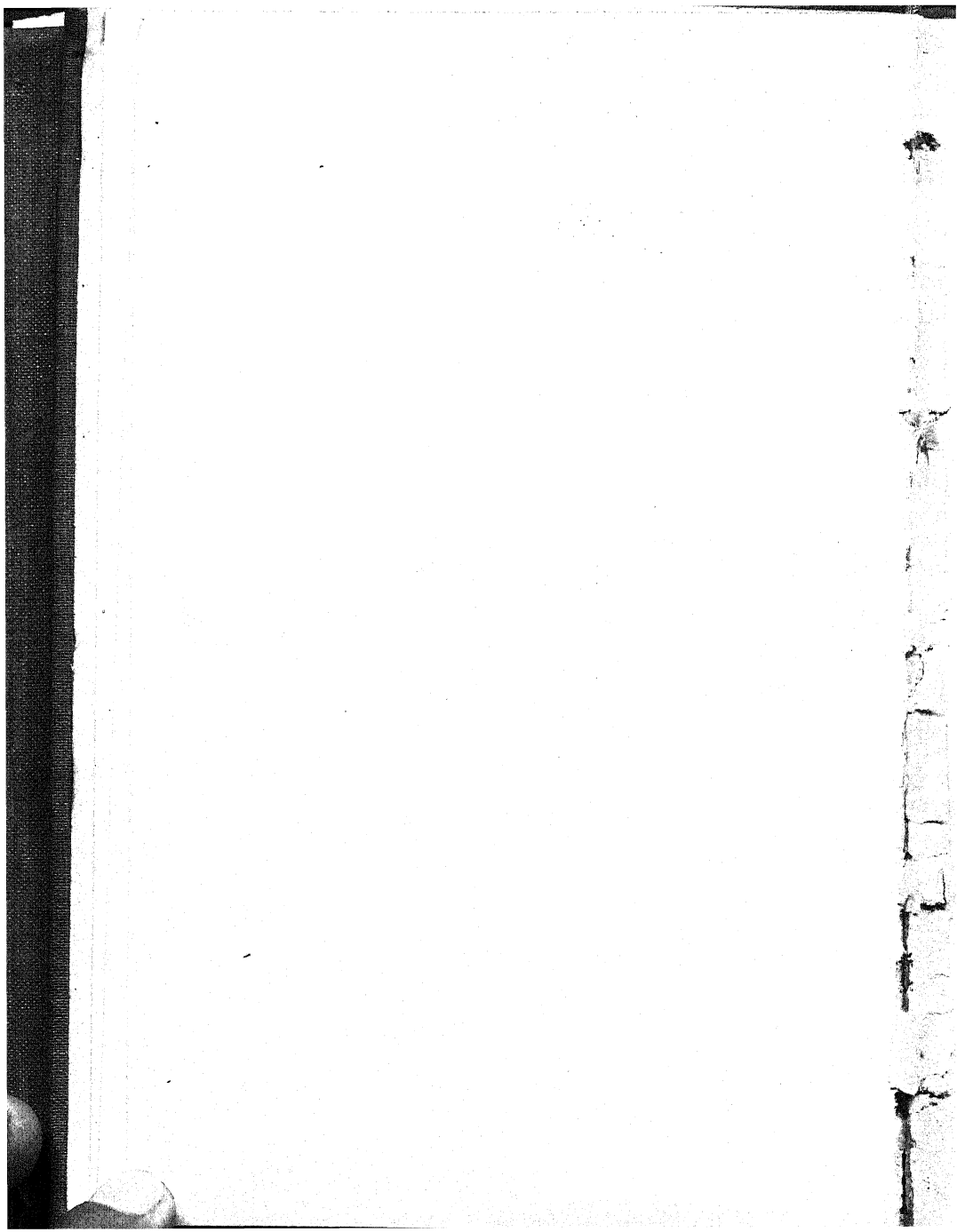
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To My Wife



## PREFACE

No claim is made that this little book is exhaustive. It is only a simple and elementary discussion of the more important principles which are involved in the consumption, production, and distribution of wealth. And wealth is everywhere thought of as a means to an end—a means to human welfare in all of its manifold aspects.

The author desires to acknowledge his indebtedness to Professor E. K. Graham, of the University of North Carolina, for many valuable suggestions as to the statement of principles and facts. To his wife, who has revised the manuscript, he is under many obligations.

CHARLES LEE RAPER.

CHAPEL HILL,  
NORTH CAROLINA,  
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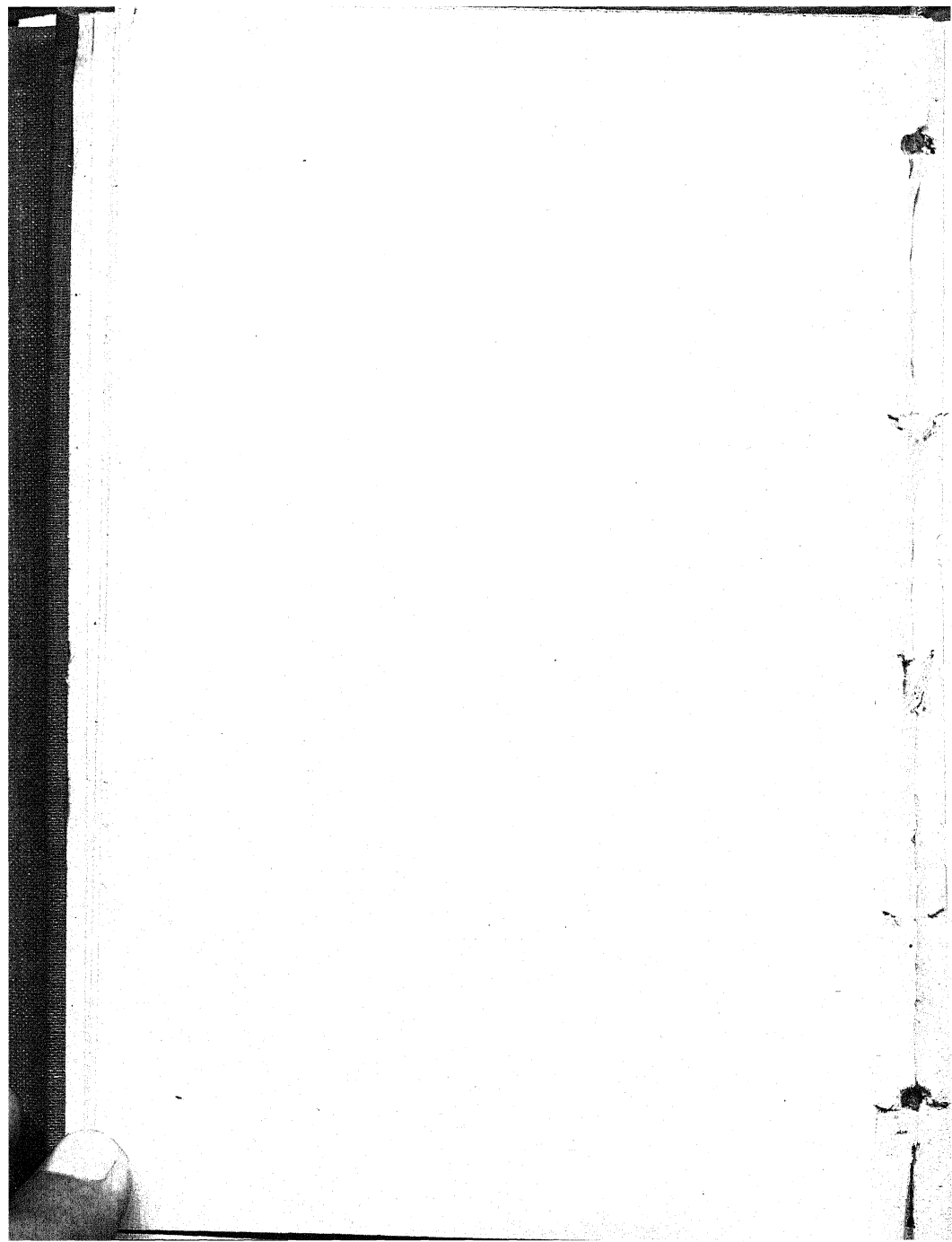
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THE PRINCIPLES OF WEALTH  
AND WELFARE





## INTRODUCTION

**The Making of a Living a Great Force in Life ; Economics.** — Religion and the making of a living, to use popular expressions to describe great and complex forces, enter into the life of every human being, in some form or other and to some degree or other. They are all-pervading forces. They are always at work, quiet and unobserved, or violent and manifest to all. And these two sets of forces, though in many respects seemingly opposites, can never be entirely separated. They are working together in the life of every human being, and at every moment of his life. Whether or not the economic set of these mighty forces is greater and more important than the religious, it is certainly great and fundamental in human life. It is at the basis of all human effort ; it surrounds every human being from his cradle to his grave.

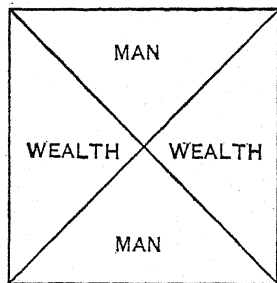
**Economics : a Social Science of Business Motives and Activities.** — A study of the forces involved in the making of a living — in the consumption and production of wealth, — a study of these universal and all-important forces we call economics. As in wealth consuming, and especially

in wealth producing, no man lives entirely or even largely to himself, so economics does not deal with individuals as individuals solely, but with individuals as parts of a larger body called society. It is a systematic study of the business activities of society. Neither does economics deal with the wonderful forces of nature in themselves, but only with these great forces as they are by human effort transformed into various articles for man's consumption, or as these great forces aid as motive powers in the production of the manifold forms of wealth. A study of business activities does not include the physical sciences; it does not include the great sciences of physics, chemistry, and biology. Nor does this study include all the social sciences. It does not deal with the political and social forces of life in themselves. These forces are in themselves distinct from those of the business world. Economics deals with those social forces whose standard of measurement is money, while government, law, and sociology are the sciences of those social forces, the yardstick of whose measurement is, or at least should be, something very different from money. We have said that religion and the making of a living can never be entirely separated. Likewise the economic can never be divorced from the political, social, and intellectual aspects of life. All other as-

pects of human life have a basis in the economic, and this is in turn fundamentally and vitally influenced by the others.

**Economics deals with the Production and Consumption of Wealth.** — The economic or business world has within itself something of activity on the part of the individual, — an exercise which brings pleasure to his body and mind. It has also something of effort, which brings discomfort and even pain to the individual. This business realm is ever moving and throbbing, is like the sea with its incessant floods and ebbs, and is full of joys and pains commingled in different proportions. This realm is ever consuming wealth in its manifold forms and qualities, and is ever producing these forms and qualities. In its consumption it uses material forces and forms, which in popular speech we call goods, to satisfy or help to satisfy human desires and wants. These goods which are the results of human activity and effort — the products of wealth producing — do not, cannot, satisfy all the desires and wants of man. They can satiate the lower or more material wants, and are an important means in satisfying the higher wants. They do not satiate the purely religious, moral, and intellectual desires, but they are the greatest means toward the satisfaction of these desires.

**Wealth, what is it? A Means to Man's Welfare.**  
 — These goods, which we call wealth, consist of material goods—lands, houses, tools, machines, live stock, raw material, finished goods, bonds, stocks, money, etc.,—and also of certain immaterial goods. A man's business or professional reputation and connections, and the organization of his business activities, are certainly not material goods in the strictest sense, but they are nevertheless thought of as a part of his wealth. This wealth in none of its forms should be considered as the end of activity and effort, but only as a means to an end—the satiation of human wants. To consider wealth as an end in itself is to hold up a low standard of religion, to worship a temporary and material form and force, and is to place man beneath material and even sordid things. Welfare in all its manifold aspects should be the end of all economic effort, as well as the end of all economic satisfactions and joys.<sup>1</sup>



<sup>1</sup>The economic realm is composed of man and wealth, and the relations of these may be illustrated by the accompanying diagram.

Let the square represent the economic realm. Man and wealth, the two objects within this realm, while distinct from each other, are in very close and vital relations. Man in-

Economic Motives and Acts, of the Individual and Society, to produce Wealth and satiate Wants.—In this economic realm every individual by virtue of his very nature and surroundings has desires and wants, both of his body and mind. And these wants can be satiated, more or less, by wealth. It is wealth that has the power to satiate these wants or to contribute to their satiation. It is wealth that is the greatest instrument in the hands of man, that is a universal and powerful means which enables him to supply his wants, whether they be the most simple or the most complex. Not only does every individual have desires the satiation of which is more or less dependent upon wealth, but he also puts forth, in some degree, activity and effort in order that this powerful instrument may become his own possession and may be for his own use and pleasure.

Man, his wants, and the process of their satiation, are the center of all economic forces and of all economic thought. His wants may be few and most simple in their nature, or they

cludes common labor and managing labor; and this labor is *immaterial*, *subjective* (belonging to the very being of man), *exchangeable* (in connection with man), and *useful*. Though not included in wealth, this labor is a great agent in its production. Wealth, on the other hand, consists of those goods which can satisfy man's wants and which are the result of man's efforts; and these goods are *material* (largely so), *objective* (external to man), *exchangeable*, and *useful*.

may be many and most complex. They may be those of the strong adult, of the infirm, of the child, or of society in its various organizations. To satisfy all of these desires and wants, manifold as they are in both form and intensity, means the putting forth of great activity and effort, not only on the part of the individual, but also on the part of society. The individual must produce wealth with which to satisfy his own wants and also the wants of those who by virtue of age or weakness must needs depend upon him. He must produce wealth for the use and pleasure of his family, his church, his clubs, and his educational, governmental, and charitable institutions. In this production of wealth, moreover, the individual cannot, at least should not, transgress upon the rights and privileges of other individuals. Every economic motive and act on the part of the individual should take into consideration the rights of a larger body called society, in which every individual lives and puts forth his efforts; welfare to society, as well as to the individual, should be the ultimate aim of every economic act and should be included in every economic motive. And it is the first duty of the state to create and maintain conditions which are highly favorable to all producers and consumers of wealth.

**Economic Institutions and Conditions largely the Results of the Past.** — Ideas and processes which are entirely new seldom come into any aspect of life, and when they come they are more or less modifications of older ones. The seemingly new things, which come into modern life with such frequency and at times with such great popular sensations, are in reality new only in their outward appearances, or at most are new only in a few of their parts. Of the great human institutions of to-day few indeed are of very recent origin, while many of them reach back for their foundation into times long since passed.

Modern democracy, of which we hear so much, and to which so many of us offer our devotions, is old in thought and even in practice. Many of our religious ideas and processes have come down to us from the far-away Hebrews, while many of our intellectual forms and processes were worked out by the ancient Greeks. Beyond a doubt this is more or less a fact of the economic aspects of modern life. Many of our present institutions in the realm of business activity go back for their basis to the seventeenth and eighteenth centuries, and not a few of them to a period much earlier. In fact, most of the economic forces of to-day are as old as mankind; they are not only universal but



also everlasting. The agriculturist tills the soil. By means of his own labor and certain forces of nature he works upon other forces of nature in order that he may produce wealth with which to satisfy his wants; and this process is as old as civilized man. The idea has not changed, though the methods and implements of tillage have changed, and in recent times with wonderful rapidity and results. The idea of transforming some of the most elementary forms of wealth, as for instance raw wool, into the highest and most delicate forms — into the most beautiful fabrics of clothing — is old, though the methods of such transformation have seen marvelous changes, especially within the last century. In our enthusiasm for ideas and things which are modern we allow ourselves to believe that the elements, as well as the external forms, of our present system of transportation are new, though in reality they are as old as history. The idea of transporting goods from one place to another, by water or overland, by some method or other, is, to say the least, very old. The merchant, acting as a middleman in the exchange of economic products, was as well known to the ancient Jews as was their famous temple dedicated to Jehovah.

**The Policy of the State toward the Individual's Economic Acts; in Part Ancient.** — Many of the

fundamental ideas of our government, religion, intellectual processes, and economic efforts are indeed old in their origin. And the policy of society toward the individual producer of wealth is also in its essential features of very ancient origin. The state, which more or less represents the larger body of individuals called society, has always taken some part in the production of wealth and welfare. At one time it has allowed the individual great freedom in his business activities; at another time it has not only regulated the individual's activities, but has also carried on in itself certain economic enterprises. Of individual economic freedom the man of the present possesses much more than did the producer of wealth in the ancient or mediæval period. The chief characteristic of the modern individual as compared with the wealth producer of old Rome or mediæval England is perhaps his freedom, the amount of liberty which the state permits him to enjoy in his economic life. This he prizes as his choicest treasure.

This remarkable feature of modern life did not, however, come into being suddenly, or even within a short time; it is the result of many forces working together through a long period. American industrial or business life, of which we are a part and of which we think so highly, is by no means a creation solely of the

American people; much of it came to us from our motherland, England, and from the continent of Europe. Our present wonderful economic life is no new creation ; it is the result of a long line of marvelous development. It is the result of many ideas and forces which have worked together through centuries and centuries in England and Europe, and which have been profoundly influenced by the wonderful natural forces and environment of our own location, as well as by the unprecedented freedom which the individual has enjoyed in government, religious dogmas, and economic effort.

**The Permanent Economic Forces and Principles and the Changing Forms in which they Work.** — We must now bring our introductory words to a close and consider in detail the forces and principles of the consumption of wealth, and of its production and distribution. We now come to examine the body, blood, and brain of the economic life of to-day. In our examination we shall discover ideas and forces which, though pulsating with great vigor, are nevertheless as old as mankind. We shall also discover that these forces and principles are now embodied in new and strange forms, and that they are at work upon a scale never dreamed of one hundred years ago. *To the permanent and vital parts, the blood and brain of economic life, let us*

give our most devoted attention. *The forms of their embodiment*, and the degree to which they work in different places and at different times, are largely temporary and shall take a second place in our considerations and devotions.

### QUESTIONS

- (1) How great a factor in your life is the making of a living?
- (2) What is economics? Wherein is it different from law?
- (3) What is wealth? How should it always be looked upon?
- (4) What is the aim of all economic motives and acts?
- (5) Are the principles of business life always the same under all conditions?



## SECTION I

### THE CONSUMPTION OF WEALTH — WELFARE

#### CHAPTER I

##### WANTS AND THEIR SATIATION

Nature acts upon Man; Wants. — The wonderful being, man, his wants, and the process of their satiation are, as we have said, the center of all economic reasoning and action. They are at the basis of all wealth consuming and producing; they are the fundamental ideas in human welfare. Man, though in some instances a marvelously refined and spiritualized being, is himself largely made up of material forces, and he is throughout his life surrounded by nature and her forces. These forces are ever, as long as he lives, acting upon him. They cause him to be like a furnace the fires of which must from day to day be fed. They create in him feelings and desires for something which has the power to satiate his cravings; the power to supply to nature the fuel for which she is ever calling. These desires of man create in him wants, and these wants are of all grades

and degrees. They range from the smallest and simplest to the highest and most complex, and from the most material to the most intellectual and spiritual. His wants continually and loudly call for something, in some form or other, that can relieve the demands which nature incessantly makes upon him, and that can bring to his wants at least partial satiation. As man's desires and wants are largely created by natural forces, so his demands are supplied largely by material forces, by that which in popular language we call forms of wealth.

**Society acts upon Man; Wants.** — Nature is, however, not the only force which surrounds the individual and which creates within him wants and demands for wealth. The individual, as we have said, lives with other individuals—in a large and complicated body called society—and is surrounded throughout his life by the forces of this society. These forces, as well as those of nature, not only surround him but also make deep and lasting impressions upon him. They give shape and intensity to his desires and wants; they, in fact, have very much to do in creating his wants. Ask the man or woman who lives in the great cities, in which society brings individuals into close and vital contact, in which the social forces are most strongly felt, why they have certain wants for food and cloth-

ing, and they will invariably tell you that fashion or style, which is entirely a social force, in a large measure creates their wants. Human wants are, therefore, the results of the powerful forces of nature and society, and this is true of all classes of men. In the lower ranks of society, for the mass of men in fact, the forces of nature are the more important in creating and giving shape to wants, while for the higher classes the forces of society are the all-powerful ones.

Along with nature and society, there is another set of forces which has much influence upon the desires and wants of man, both in the individual and in the collective body. The tendencies which are handed down from father to son, the physical and mental inheritances of the individual and the community, have much to do in creating economic wants, certainly in creating particular forms and degrees of these wants. Economic man is always surrounded by many inherited and traditional forces, as well as by natural and social environment. The forms of foods and houses, for instance, which the individual calls for may, in many cases, be traced to the wants and demands of his ancestors.

**Classes of Wants.**—As we have said, the wants of man are of all grades and degrees of intensity. This fact, however, does not prevent



us from making a general classification of them, and in our discussions we shall treat of them under the following heads: *living wants, developmental wants, and governmental wants.*

(a) *Living Wants, by Nature and Society.*—

The first and most important of these classes of wants in all ranks of society is that for living, — for food, clothing, and shelter. These wants are universal; they are in some variety and intensity in the lowest type of the American negro, as well as in the highest and greatest Anglo-Saxon. In one man the desire for food is merely for subsistence. He cares nothing for a variety of food, or for dainty forms of it. Let us consider an illustration. Many a negro in the Southern states has his desire for food satiated when he has eaten, in great quantities at times, of hog meat and corn bread, both cooked in the simplest way. In another individual the want for food, while perhaps not so intense, is satiated only by a great variety of meats and breads, prepared in many different ways. The wants for food, therefore, cover the widest imaginable range, and this is equally a characteristic of the wants for clothing and shelter. The simplest garment that can cover the body, and the smallest and poorest tent or hut that can afford protection from the rains, winds, and snows, satiate the desires of many

a man for clothing and shelter. There are, however, many individuals whose desire for clothing can only be satiated by the most elaborate and artistically made dress, and whose wants for shelter demand the most extensive and magnificent palaces.

In any of these wants for living there is, as a rule, a certain element which nature creates and also one which society produces. The wants which nature creates are few and simple, yet at times most intense. The wants produced by social forces are more and more complex and varied. Many a man has desires not only for the necessary elements in his foods, clothing, and houses, but also for a large element in each of these purely for the sake of variety and distinction. When such a man becomes desirous of being distinguished among and even above his fellow-men, when he has desires to shine, so to speak, in the realm of society, then his wants become manifold and complex, and more and more difficult in their satiation. We can most easily understand the differences between the demands which are created by nature and those created by society by examining certain representative illustrations. The dining-table of New York City's highest social class must contain not only the elements of foods necessary for subsistence and health of body and mind,

but also those elements which social ideas declare to be necessary for variety, distinction, and social sensations. The table of the small Georgia farmer, on the other hand, is supplied only with the simple necessities of life. The English lord must have in his house not only the utility of shelter from the sun, winds, and storms, but also sleeping chambers in great number and variety, halls and parlors of many kinds, furniture and treasures of art of a unique and splendid type. But the simple tenant on the Carolina hills must have but a one-room cabin.

(b) *Developmental Wants, of the Individual and Society.*— We have seen that the living wants arise from the great pressure which nature brings upon man, and as a resultant of the social forces which ever surround him. We have assumed that all these wants create in man more or less of the necessity to put forth activity and effort. When, however, man begins to struggle with nature and her mighty forces, in order that he may produce something with which to satiate his wants, he recognizes that his own labor possesses little power as compared with that of mighty nature, and that his own simple muscular strength and energy can accomplish exceedingly slight results. This experience, though it at times brings him much

discomfort and even pain, creates in man a new desire and causes him to put forth greater effort; it produces in him a new want—the want of his own development.

This want on the part of the individual to be more skilled, and to possess more control over nature and her forces, while not so fundamental and universal as the want for living—for existence—is nevertheless at times very strong and important. These developmental wants, like those for living, are manifold and of many degrees of intensity. In fact, the wants for development and those for living in many cases go hand in hand. In the want for food, clothing, and shelter, there is more or less of a want for a strong and healthy body and mind—a want for physical and mental development and culture.

(1) This economic being called man has wants for his own muscular strength and skill. (2) He also has wants for the development of his own intellectual powers; has wants for teachers, books, scientific apparatus, works of art and music. (3) This economic being has desires for the development of the great society in which he lives and puts forth his efforts. He has wants for more efficient highways and streets, whereby he may the more easily come in contact with his neighbors; he has wants for

boards of health, sewers, and scavengers, that the disease germs which threaten his life may be eliminated; he has wants for fire departments, with which to protect himself and his property; he has wants for schools, in which he may learn to become a better citizen, as well as a more efficient producer of wealth; he has wants for hospitals and asylums, in which his fellow-men who are diseased, infirm, poverty-stricken, and mad, may be provided for. Economic man also has wants for deeper and less obstructed rivers and harbors; he has wants for canals, with which to connect the great natural bodies of water and make them into continuous waterways for the purpose of transportation; he has wants for light-houses and life-saving stations as an aid to the sailor; he has wants for postal and railway systems, for the transportation of intelligence, persons, and goods. (4) Economic man also has wants for the development of his spiritual faculties. He desires to know more of the Creator of himself and of his fellow-men. He desires to incorporate into his own heart more of love, faith, and charity, more of honesty and honor. He has wants for ministers, churches, and a great system of religious organizations.

(c) *Governmental Protective Wants*.—Wants of this class, as well as many of those just mentioned, arise from the fact that man is both

an individual being and a part of a larger body called society. Robinson Crusoe in his complete loneliness is only an imaginary man. He exists nowhere in our whole economic realm. Economic man lives not by himself or unto himself, but in a community which is more or less densely populated. This community in its organization has many and varied forms, but in the United States it may be considered under the following groups: county, municipality, state, and nation. Whether of one type or another, this community is a living body and, therefore, has its desires and wants of various kinds and degrees. The special kinds and degrees of its wants depend, to an extent, upon the location of the community, — the environment given it by nature and by man, — and to an extent upon the economic conditions and wants of the individuals who constitute the community. Such a collective body we may call the state, whether it be a small or a large community. Many of the wants of this state are those for development, — of its own collective powers, — and these have already been considered. It yet remains to treat of those governmental wants which are more essentially of the nature of protection on the part of the state to the individual.

(1) In the first case, there is the govern-

mental want of regular and permanent bodies set apart for the administration of the general affairs of the people. Not only is there a want for regular legislative and executive bodies, (2) but there is also a want for a permanent system of courts and penal institutions, of jails and penitentiaries, in order that justice may be established and maintained in the actions of individual with individual, and of individuals with the collective body which we call the state. (3) There are likewise governmental wants for armies and navies, with which the peace and order of the community may be preserved, and with which the reputation and integrity of the state may be maintained.

**Satiation of Wants: Consumption of Wealth.**—All these wants, whether for living, development, or governmental protection, should be satiated. It is wealth, in some form or other, which has the great power to satiate these wants or help in their satiation. To the continuous and ever recurring series of wants should be adjusted a continuous series of supplies. If the simple and necessary wants for food, clothing, and shelter are not satiated, the individual weakens, becomes diseased, and dies. If the demands which nature makes upon him are not supplied from without, man's physical energy is soon consumed and exhausted. If the wants

for development, both of the individual and of society, and for governmental protection, are not satiated, there is lack of progress, there is inefficiency, there is exhaustion and disease. But satiate all these wants, as far as subsistence and efficiency both demand, and there will be vigor, health, prosperity, progress, and welfare.

**Consumption of Wealth a Consumption of Utilities.**—Every individual being is, therefore, a consumer, and must be a consumer. He is a consumer of those forms of material things which can satisfy or aid in the satisfaction of his wants, whether they be few and simple, or varied and complex. That which man consumes is, however, not the substance of things but their utility or service, though in their consumption the form of the things is changed. The consumption of foods, for instance, is the using of the various food elements which they contain, and in this case the transformation takes place very rapidly indeed; the bread is used up at one time. The consumption of a house, to meet the wants for shelter or home, is also the using of the various elements which it contains, and in this case the transformation takes place very slowly; the house is used up hour by hour throughout a very long period. We, therefore, consume utilities, rather than material substances. We consume that which



in popular language the world calls wealth. Our wants of various kinds and degrees are the causes of this consumption of wealth in its manifold shapes and qualities. These same wants are also the causes of the production of these forms of wealth — the causes of human activity and effort. To produce forms of wealth or utilities which can satiate or help to satiate all of our wants is the ultimate aim of the production of wealth in any form.

**Wealth, the Power to satiate Wants, the Result of Effort.**—As we have said in our introductory remarks, economics does not deal with the forces of nature in themselves. It deals with these forces only as they aid in producing utilities which can satiate human wants. While wealth consists largely of material substances, it by no means includes all the material things of the world. Unless these material things have the power to satiate human wants, and unless they are produced at the cost of human activity and effort, they are not wealth; they are not of use to man. There must be a want on the part of man for a material thing, and it must be of such a form as to be consumed by man before it can begin to possess the quality of wealth. Human effort must also be put forth for the acquirement of a material thing before it becomes wealth. Air and light are

wonderful material forces, but in most instances they are not wealth. They are supplied by mother nature in such quantities that man has no want for them and has to put forth no effort in order to obtain them. In a sense, to be sure, these substances are used by man. In a sense they are, therefore, utilities, but they are not forms of wealth from our point of view.

**Satiation of One Want creates a New Want ; Evolution in Wants.** — We have said that wants of some form or other are ever recurring. When one want is satiated, another is created, and the new want may be of the same form and intensity as the old, or it may be a very different one, a higher or a lower one. There is, beyond any doubt, an evolution in human wants. There must, therefore, be a corresponding evolution in the process of satisfying these wants — in the process of producing utilities which have the magic power to satisfy them. And many of the world's most philanthropically disposed men are spending their noble lives in attempting to contribute to this evolution, in attempting to create new and higher human wants, and in attempting to discover a process whereby to produce utilities which can in the fullest and best manner satiate them.

**Consumption of Wealth; Amount and Effects.**  
— As we have already said, the aim of all

consumption should be welfare, to the individual and society alike. The amount and quality consumed by any man are, therefore, most important and vital problems; the consumption of wealth is just as vital a problem as is its production. And we shall treat of this problem in the following paragraphs.

*From the very nature and purpose of consumption, it is clear that no injurious goods should be consumed.* Of course, the injury which comes from consuming certain goods depends largely upon the purpose and extent of their consumption. The use of a certain amount of spirituous liquors, and for a certain purpose, may bring benefit, while a larger use, and that for the sake of dissipation, brings to human life weakness, disease, and even destruction. The motive force behind consumption is a human want, which nature and society have created in the individual or in the collective body of men, and to satiate this want, and perhaps incidentally to create a higher want, should be the object of all consumption. Consumption is in itself not an end; it, like wealth, should be only a great means to a greater end—human welfare or greater physical, mental, and moral efficiency in the individual and society.

*Consumption should never be separated from*

*the ideas and problems of production.* Man should consume in order not only to live, but also to produce wealth and welfare—to put forth great and efficient activity and effort. To satisfy his normal wants, whether created by nature or by society, is to add a large element to man's welfare and pleasure. It is also to add to his efficiency as a producer of wealth, as well as to make of the individual the greatest possible man and citizen. The putting forth of activity and effort by man not only produces wealth, but also develops him physically, morally, and mentally.

*There should be no waste.* The amount of wealth consumed determines, as we have said, not only the amount produced, but also the efficiency of the consumer as a producer. It likewise determines, in a large measure, the standard of honesty according to which the producer acts in all his business relations. The more wealth he consumes, the more of the goods produced he desires to keep for his part, and the less he is willing to allow to the other agents of their production. Too many, yes a thousand times too many, are the instances of dishonesty and crime in the business world because of extravagant consumption. Extravagant or careless consumption by an individual, or by a group of society, is not only a waste of wealth, but it

is also a positive harm to society, if indeed not to the individual who thus consumes.

Of this waste of wealth we have to-day a vast amount. It seems to us that a part of the economic world has gone mad in its extravagant and careless consumption of wealth, in its consumption of utilities which in many cases do not really belong to the individual who thus consumes them. Vast amounts burned in the fires of dissipation, so to speak! Foods and drinks of every conceivable kind and quality; dress and jewelry, to the enumeration and description of which there is no end; houses in many lands, in the building of which the four corners of the earth have been compelled to contribute a part; horses, carriages, and automobiles, of every description — enormous consumption!

**Many do not consume enough for Efficiency; Cannot.** — There are many normal wants, and their degrees of intensity vary within a very wide range. We believe that the ideal in the satiation of these wants, of each grade and degree of intensity, is that of strength and efficiency. We believe that consumption should be in kind and in amount in strict proportion to the want. The simple wants for living — food, clothing, and shelter — are, or at least should be, easy of satiation. Here there is a call for utilities to

be consumed, not for the sake of variety or distinction, but for subsistence and efficient strength. To satiate the wants of this kind should not be very difficult. It does not require a great amount of wealth.

For some cause or other, however, many individuals, even in these most progressive times, cannot satiate their simple wants, at least to the point of efficient strength. It may be due to their lack of activity and effort, because they produce little wealth. It may be because they are robbed of a part of that which they do produce. They live in the barest way. Oftentimes they have not, for consumption, a sufficient amount of meat and bread, a sufficient quantity of clean and warm clothing, and a healthful dwelling place. They do not consume sufficient wealth to satiate to an economical degree their simplest and most fundamental wants. In the larger cities there are millions of people who do not consume sufficiently to make themselves and their children strong and efficient producers. There are even millions who do not consume utilities in amounts large enough to enable them to live out their natural lifetime. Millions who really are dying, though slowly, because their simplest and necessary wants of life, because the simple calls which nature brings to them, are not satisfied ! They are dying because

their wants call for good bread and meat, and are supplied by poor foods; call for good raiment, and are supplied by rags; call for clean and healthful houses, and are supplied by dirty and foul holes. And these people do not consume more wealth, as much as their simple wants and necessities absolutely demand, because they have it not.

**Miserly and Wasteful Consumption; Ignorance.**— There is another class of men who, though possessed of sufficient wealth, do not consume an amount large enough for efficiency in strength and skill. The miser consumes little, mainly because he loves and worships wealth as an end; its possession is to him the end of life. Fortunately for human welfare, this class is a very small one. There are others besides the miser who have wealth, but do not consume enough of it. There are not a few men who consume less of wealth, for themselves and their children, than their efficiency as producers really demands, and their insufficient consumption is due in a large measure to their lack of intelligence and foresight. They do not begin to understand the great advantages, present and future, to come from a greater consumption.

Ignorance and lack of sound judgment are also responsible for wastes in consuming wealth.

There is great waste in the foods, clothing, and houses, which many people use. The foods are prepared for the table in such a manner as to destroy very much of their nutriment. The lack of intelligence in cooking is not only responsible for waste in consumption, but it is also responsible for much of the misery, weakness, disease, and crime of mankind. The great prevalence of indigestion and dyspepsia among the Americans is, it seems to us, due in a large measure to their cooking. Not only is ignorance a cause of much waste in the foods, but it is also responsible for waste of wealth in clothing and housing. Many a man consumes, in attempting to satiate these wants of his, clothing and houses which have the minimum amount of real and vital use and the maximum amount of gaudy display. We most readily grant that the form of a goods, as well as the substance of it, is a part of its utility. We also readily grant that the normal social fashions and tastes have much to do in creating human wants and consequently in adding utility to material forms. While all this is readily granted, we contend that there is great extravagance and waste in many of the forms of the utilities which we consume.

**Wasteful and Extravagant Consumption for many of the Higher Wants.**— Not only do we have



extravagance and waste, and to an enormous extent, in the consumption of wealth for the lower wants, but we likewise have extravagance and waste in the consumption of wealth for the higher wants, for those of development and governmental protection. The wants of these classes, like those for living, are at times abnormally great, and to satiate them, even though without waste, means an enormous consumption of wealth. The satiation of these wants, like that of the lower wants, is, however, often left to poor judgment, to ignorance, and at times to fraud. The expenditures of many of our bodies and instruments of social development and protection have become marvelously large as compared with the actual results accruing therefrom. The amount of wealth consumed annually by many departments in our municipal, state, and national governments, in our educational and religious institutions, has grown to gigantic proportions. That great results have come from this enormous consumption, we cannot deny; many of our great developmental and protective wants have been satisfied, at least in large measure. That there has been, on the other hand, much extravagance and waste in this consumption, every serious-minded and candid observer must admit.

Many of the Higher Wants not sufficiently Satiated; Disease and Death. — There has also been a great lack of consumption for certain purposes and in certain cases. Many of the higher developmental wants have either not been satisfied at all, or at most have been but to a slight degree, and weakness, inefficiency, disease, and death have been the inevitable results of such a lack of consumption. Not a few are the instances in which towns and cities have not satiated their wants for better sewers and cleaner streets, have not satiated their wants for a more efficient enforcement of health regulations, have not supplied their need for fire departments; and disease, death, and destruction of property have come as the results of such a lack of consumption. Many a community has not satiated its wants for educational facilities, and ignorance, inefficiency, and even stagnation have come not only as a result but also as a penalty. American history everywhere bears testimony to the fact that individuals and society have wants, and also to the fact that the method of their satiation may bring great welfare and progress, or misery, decay, and destruction. We repeat that man's wants and their satiation are the center of all human life.

QUESTIONS

- (1) Why does man have wants?
- (2) For what does man have wants?
- (3) By means of what can man satiate his wants?
- (4) How much wealth should you consume?
- (5) How are wealth consumption and welfare related?



## CHAPTER II

### DEMAND, VALUE, PRICE

**Wants, Demand, and Value.**— In our discussion of wants and their satiation we have very frequently used the term “demand.” We have seen that needs and desires create wants, and that wants create a demand for the material thing which has the power to satiate them. Demand for utilities, therefore, follows in consequence of the wants for them. Without wants for a goods<sup>1</sup> there is no demand for it. Not only do wants create a demand for a thing, but they also cause activity and effort to be put forth in order to obtain this thing. Wants are, therefore, not only at the basis of the consumption of wealth, but also at the basis of its production. Since wants create a demand for a goods, they have much to do in giving value to this goods. The power to satisfy human wants is, however, not the only force necessary to a goods to give it utility or value. It must exist in nature in

<sup>1</sup> The term “goods” means a certain form of utilities, as, for instance, sugar, flour, beef, or cotton cloth.

quantities small enough to cause effort to be put forth in order to obtain it. Demand for a thing, therefore, in connection with the effort put forth to get possession of it, gives value, which is an expression of the utility of the thing. Wants create demand, and demand, in connection with effort, gives utility or value.

**Consumer's Value and Price.** — Value is, however, a very abstract economic measure, and in the actual business world it has a concrete expression, a yardstick, which we call price. We have the consumer's price, which is the measure of the value he assigns to a goods. We also have the producer's price, which is the measure of the value he assigns to a goods. In a very general way we may say that the wants and demand of the consumer for a goods are measured by the price which he is willing to pay, though, as we shall later see, the same price, one dollar for instance, does not mean exactly the same thing to all consumers under all circumstances. While the amount of wealth which an individual possesses has something to do in changing this measuring stick, still by far the most important force in the consumer's price is his demand. The price which the consumer is willing to pay for a goods which can satiate his wants is, therefore, in the main a fair measure

of his wants and demand for the goods and of the value he assigns to it.

**Market Value and Price.** — The price which the consumer is willing to pay is, however, one thing; that which the producer is willing to accept for his goods may be another thing. As we shall see under the section dealing with the marketing of goods, these two prices sooner or later come to a point of equilibrium, and the resultant of this equilibrium is the market price. The producer of cotton, the farmer, is willing to part with his crop at ten cents a pound. The consumer of this cotton, the manufacturer, is willing to pay nine cents. If the consumer and the producer are willing to compromise with each other on equal terms, there will be a market price of nine and one half cents; nine and one half cents on one side of the scale and nine and one half cents on the other side will come to an equilibrium. Price, which is but a concrete measure of value, is, therefore, the key to all the many and wonderful economic forces at work in the consumer; it can unlock all of his situations. It is likewise the key to all the forces, whether great or small, which are at work in the producer.

**Elasticity of Demand and Market Price.** — The wants, and consequently the demand, for a goods are constantly changing. The living

wants, as well as those for development and governmental protection, are ever changing, not only in their form but also in their degree. The desires of the consumer are elastic to a greater or less extent, and his demand is correspondingly elastic. For some goods the demand of the consumer is more elastic, for others it is less elastic. The demand for a few articles, the almost absolutely necessary ones, is in the main constant or inelastic. The want for salt in our foods is practically absolute; it is in reality a want that can be satiated by no other commodity. The demand for such a food is, therefore, inelastic, and the market price of this goods will have slight effect upon the demand for it. Salt has been selling on the market for one cent per pound. Practically the same amount will, however, be consumed, if it should rise in price to one and one fourth cents per pound. The want for bread is universal and more or less constant. The demand for bread, either wheat, corn, or rye, is, therefore, inelastic, but for bread made of one of these cereals,—wheat, for instance,—it is comparatively elastic. If the price of wheat goes up as compared with that of corn, less wheat bread will be consumed and more corn bread will be demanded, and *vice versa*. The want for tea or coffee, while not universal, is nevertheless very prevalent.

The demand for either of these articles is, however, very elastic. As these two articles supply almost the same want and to almost an equal degree of satisfaction, the change from the use of one to that of the other is easy.

These two illustrations of wants which are more or less elastic in their satiation are by no means exceptional. The consumer has, in fact, a great and varied field from which to select the goods that he will use in the satiation of his wants; his demands are in actual fact largely elastic. He is no more a slave to the producer of goods than the producer of these goods is to the consumer of them.

**General Law of Demand and Market Price.**—The consumer's demand varies more or less with the market price of the goods which he desires. If the market price is high, he in the main demands less of these goods, and the fact that he demands a smaller amount tends to bring their price down. If, on the other hand, the market price of certain goods is low, the consumer in the main demands more of these goods, and this increase in his demand tends to increase their price. We may, therefore, say that demand varies as the wants vary. If the wants become greater, the demand becomes greater. We may also say that demand varies at the same time as the price of goods, but not directly with the



price. This is the general law or tendency of demand: (1) *It varies directly with the wants*, and (2) *inversely with the price*. This general law does not, of course, apply to all cases and under all circumstances. We state it as being only a general tendency. For the *very rich* this law does not apply, at least fully. The man possessed of great wealth, as a rule, consumes whatever his wants call for, irrespective of whether the price is higher or lower, is increasing or decreasing. Likewise the demand of the *very poor* is in the main inelastic. They never consume more than is absolutely necessary, though the price of certain goods should become lower.

**The Principle of the Satiation of Wants; Demand, Value, and Price.** — We have now considered the consumption of wealth from the standpoint of human wants and their satiation, and also from the standpoint of the value which these wants create in certain material forms. The amount of wealth consumed, as well as the relations of the demand for a certain goods to the price of this goods, we have also treated. It is now necessary for us to examine the mental principles underlying all of the many aspects of the consumption of wealth. We have said that the reason for consumption is a want and the desire to satiate it by means of a certain form

and a certain amount of wealth. We have seen that the wants of the community as a whole are exceedingly varied in kind and degree of intensity, and this is also the true characteristic of the wants of individuals. The community and the individual alike have at one time wants of certain forms and degrees; at other times their wants are of very different forms and degrees. Is there a principle of the satiation of wants by means of the use of wealth? What is it? Let us consider the degrees of intensity of a single want in a single individual, in order that we may discover the mental principle involved. The satiation of the wants for bread and meat, for instance, when analyzed, will reveal to us a principle which applies throughout the realm of human wants.

**Decrease in the Utility of and Demand for Successive Units of Wealth illustrated in the Eating of Bread and Meat.**—At the moment when the individual begins to satisfy his desire for bread, his want is then strongest, is at its maximum intensity. The more bread he eats at one time, the less and less strong are his want and demand for bread, until he finally comes to a point where his want for it is entirely satisfied and his present demand for it disappears. At this point he will pay no price for bread for his own immediate consumption. At the moment when he begins

to eat, his want is greatest, and consequently the first mouthful of bread is the most useful to him. It gives him more pleasure than the second mouthful, the second more pleasure than the third mouthful, and likewise to the time when he will not eat another morsel. The first mouthful possesses for him the maximum of utility, while the last mouthful possesses the minimum of utility. To take another mouthful after he has fully satiated his want for bread will bring him something of discomfort. This last mouthful which he consumes — the last one to bring him pleasure — we may call the marginal unit or mouthful. The utility of this last unit or mouthful is not only the turning point in his consumption of bread, but it is also the turning point in his present demand for bread and the price he will pay for it for present consumption.

To be sure, our consumer will in a few hours need more bread; that which he has eaten is soon consumed in the furnace of his muscular and mental activity. When, however, he again begins to eat, the same mental principle is at work as was in the first instance. We have said that, at the point of the complete satiation of his want for bread, he has no present demand for bread and will pay no price for bread to be consumed at this very moment. What of his de-

mand at this moment for meat? When he has fully satiated his want for bread, has he also satiated his desire for meat? No. He has consumed no meat, and it may be that this want, which is really a new want, an entirely different want from that for bread, is just at this very point maximum in its intensity. And its satiation is according to the same mental principle as that which we have just outlined. The utility of the last or marginal mouthful of meat, just as of bread, is the one which determines the consumer's present demand for meat, and also the price which the consumer will pay for meat to be consumed at the point of his complete satiation.

**Decrease in the Utility of and Demand for Successive Units of Wealth Universal.** — This principle of the decrease in the utility of successive units of goods consumed is universal. It is true of the satiation of all kinds of wants which the individual has, irrespective of their form or intensity. It is true of his developmental and protective wants, as well as his wants for food, clothing, and shelter. This same principle applies to the satiation of the wants of the community, though in the case of the larger economic body the decrease in the utility or value of the successive units of goods is by no means so rapid as in the instances of our

illustrations. In fact, in the two cases which we have just analyzed, we have to an extent assumed that bread and meat are very perishable articles of consumption, and that in consequence the demand for them is immediate, at the very time of their consumption. Most certainly this assumption is not in actual economic life entirely correct, but the correctness or incorrectness of the assumption has little to do with the mental principle which we have described.

This principle, moreover, applies, to a considerable extent, to the want for money which represents the most permanent forms of wealth. To the normal individual, who for a time has no money, the want for money is maximum. As he obtains more and more of it, unit by unit, or dollar by dollar, his desire for it becomes less intense, until finally his want for it is largely if not entirely satisfied. In this case the decrease in the utility of successive units is very slow, much slower than in the illustrations considered above. Money represents the more permanent forms of wealth, in fact all forms of it, and can help the individual and society to satiate their wants of all imaginable shapes and degrees. For this reason the decrease in the value of its successive units is exceedingly slow. The slowness of the decrease does not, how-

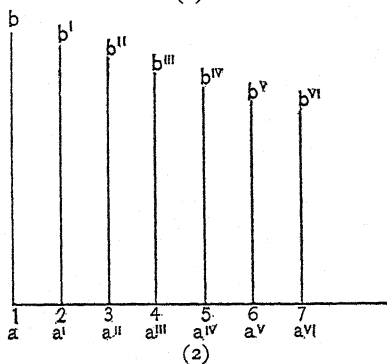
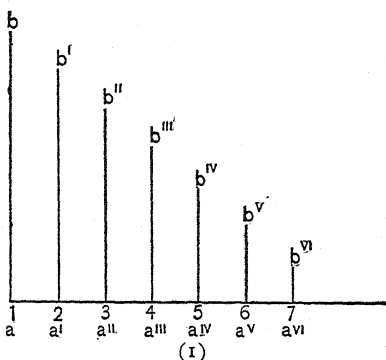
ever, set aside the principle of which we are speaking.<sup>1</sup>

**How to distribute Wealth for Consumption: Equal Marginal Pleasure in satiating Every Want.**

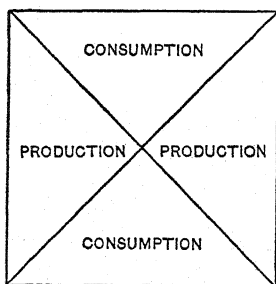
— The individual and society, whether they will it or not, are controlled by this great and universal principle in all their consumption of wealth. There is, as we have said, more or less of pleasure in all consumption, unless it be in the wasteful and injurious uses of wealth; the satiation of normal

<sup>1</sup> Let us illustrate the decrease in the utility of and demand for successive units of goods by the following diagrams:—

Figure (1) represents a great and rapid decrease, while figure (2) represents only a slight decrease. The line  $ab$  represents the utility of and demand for the first unit of goods,  $a^Ib^I$  the second unit,  $a^{II}b^{II}$  the third unit,  $a^{III}b^{III}$  the fourth unit, . . .  $a^{VI}b^{VI}$  the seventh unit.



wants of any character always brings pleasure to man. The amount of pleasure depends upon the strength of the want which the individual has, and this is, as we have seen, the resultant of many forces — of nature, society, and inheritance. The problems of consumption are, therefore, to find out the exact amount of wealth which will bring maximum pleasure, not only in the satiation of one particular want, but also maximum pleasure in the satiation of all wants. If the individual in consuming his wealth should spend for food, clothing, and housing, and all his developmental and protective wants, the exact quantity of wealth which will cause his marginal pleasure in each of these wants to be the same, then he has solved a great and most difficult problem; then he has brought to himself and the community in which he lives and acts the maximum of welfare which may come from the consumption of wealth.



**Consumption of Wealth and its Production; their Relations.**<sup>1</sup> — We have said that there should be no consumption of

<sup>1</sup> Let us illustrate the relations of the consumption and production of wealth by the accompanying diagram.

wealth unless it be for the sake of the normal pleasure and welfare of the individual and society, for health and efficiency. There should likewise be no consumption of wealth apart from the view-point of its production. While the want for material goods comes first, the supply of these goods is just as vitally important as the want for them. In the main, therefore, no man should consume more than he produces, though unfortunately for himself and especially for society many men do. *Demand for goods and the supply of them more or less balance each other.* We have consumer's demand, value, and price for every conceivable article produced, and the price which the consumer is willing to pay for a goods is the mighty motive force of its production. The producer is always willing to meet the demand of the consumer, in order to get from him the price which he is willing to pay. Consumption, the satiation of the many and varied human wants, in its very nature and purpose, assumes production, and likewise the production of wealth is essentially for the sake of its consumption. The forces, forms, and principles of consumption are, as we have seen, the results of nature and of society — the products of natural and social forces working upon the individual's physical



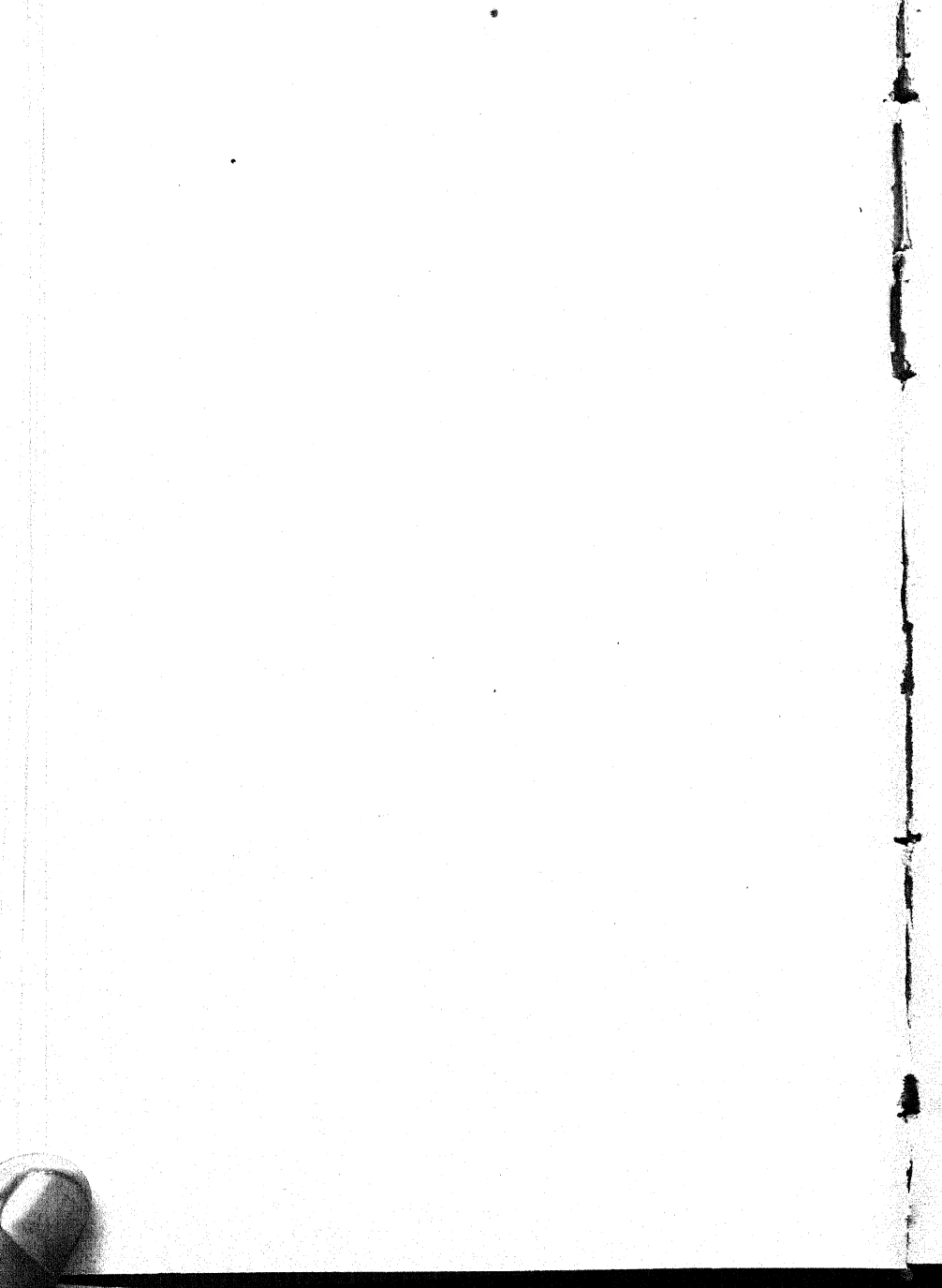
and mental elements. So also are the forces, forms, and principles of the production of wealth. These are in part the results of the demand of the consumer, while in other parts they are the products of nature and of society.

**Production a Part of Consumption, and Consumption a Part of Production.** — Not only is production a necessary result of consumption, but production is also in itself essentially a process of consumption. Every producer is always a consumer of finished products and, therefore, has his wants for these products. And as a producer he has wants for raw material, for labor, for land, for capital, and for business management, in all of their various forms. As a consumer, he consumes the higher forms of wealth in order that he may live and become more efficient, and as a producer he consumes the lower forms of wealth in order to create the forms of finished goods, which he as a consumer and the other consumers are ever demanding. Let us illustrate this point. The consumer calls upon the merchant for a yard of cotton goods. The merchant, in order to supply the demand of the consumer, must make use of the cotton manufacturer, the transportation agent, and the cotton farmer. The merchant in producing the cotton fabric—in placing it at the door of the consumer—consumes, in a

sense, the products of the manufacturer, transportation agent, and farmer. Production is, therefore, in large part a process of consumption, and consumption a part of the process of production. In the actual business world these two sets of forces are always working together, connected and interconnected, but for the sake of clearness of thought, and especially for clearness of statement, we shall now consider them under two separate heads. Later, under the section devoted to market price, we shall consider them together.

### QUESTIONS

- (1) What do you mean by demand?
- (2) What is value? How are value and price related?
- (3) Does the demand for beef vary with the price of beef?
- (4) How much wealth will a man yearly consume in the shape of salt, beef, flour, houses, fuel, clothing, travel, or education?
- (5) If you have wants and demands for a certain goods, will this goods be supplied to you?
- (6) If your wants and demands are supplied, is your welfare increased?



## SECTION II

### THE PRODUCTION OF WEALTH—WELFARE

#### A. INTRODUCTION

#### CHAPTER I

##### PRODUCTION: ITS NATURE AND AGENTS

**General Nature of Production; Nature and Man work Together.**—We have already seen that the process of producing forms of wealth or utilities follows their consumption, and also that in many respects production is a part of the process of consumption and that consumption is a part of the process of production. We have also seen that the forces of the consumer create the demand for utilities, and to a large extent the utilities themselves, while the aim of the producer is to create the supply of these utilities, to create something which has the power of satiating the wants of the consumer. As nature and society are largely responsible for these wants in the individual, so nature and society are in large part the producers of the utilities which can satiate these wants.

Nature is a mighty element in the production of all the conceivable forms of wealth, but man

must perform a certain part in the process of producing wealth in any form. If nature of her own forces supplied all the goods needed by man as a consumer, if it were not necessary for man as a consumer to put forth some activity and effort to satiate his wants, there would be absolutely no wealth as we understand it. A material thing must possess value before it becomes wealth; and this value is in large part created by man, by his wants for the thing and by his efforts put forth in order to obtain possession of it. The production of wealth or articles of value is, therefore, a more or less complicated process, and the complexity of production depends largely upon the form and intensity of the wants on the part of the consumer. It also to a great extent depends upon the supply of the agents and instruments of production which nature and society bring to the individual as a producer.

**Various Demands and Various Products.** — As we have seen, the wants of the consumer cover a wide, even a vast, range. In order to satiate these wants, the producer must in consequence create an enormous variety of products or utilities. We have the consumer on the coast of the Carolinas, for instance, whose wants for food do not extend beyond those of wild fruits, a few cereals and vegetables, fish and game. The

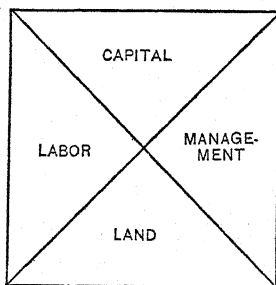
producer in this stage of wants must needs make but very few and simple products. We have the consumer whose wants for food demand a few cereals, vegetables, fruits, and meats of hog, cow, or sheep, and to produce for him is as a rule a simple process. We also have the consumer whose wants for living, development, and protection demand articles in the production of which all the myriad forces of nature and all the ingenuity of man as a producer are combined.

**Producer and Consumer the Servants and Masters of Nature and her Forces.** — In order to supply the demands of the consumer, man, as a producer, must work upon the great forces of nature by means of his own simple muscular and nervous energy, and by means of a certain amount of the forces of nature used as a motive power. In the earlier stages of economic life the producer has not learned to use the forces of nature as motive power, at least to any extent, and he is consequently largely dependent upon his own energy. But the individual's muscular energy unaided by other forces is insignificant in the face of the great natural forces. The producer, who is thus dependent upon his own energy alone, is largely the slave of nature; and at times she willingly offers to man her bounties in great quantities; at other

times she holds fast to her own. In such a stage of economic life the consumer, as well as the producer, is almost entirely dependent upon nature. At times his simple wants are satisfied to the utmost, while at other moments he must needs go hungry and ill clad.

When, however, the producer begins to lay hold of the mighty forces of nature and to use them, as well as his own muscular and nervous energy, he is no longer a slave. When the consumer does not use all of his wealth for present satiation, when he reserves some of it for a future use, either for the satiation of his future wants or for making instruments for the production of more wealth, when the consumer has begun to do this he is no longer the slave of nature. Man as both a producer and a consumer is now liberating himself and is even becoming the master over great nature and her marvelous forces.

**Agents of Production in General : Labor, Land, Capital, Business Management.**<sup>1</sup>—The agents of production are, therefore,



<sup>1</sup>The relations of these four agents may be easily understood by examining the accompanying diagram.

The square represents the realm of the production of wealth.

man and nature. Nature acts upon man, and he becomes a consumer. Man acts upon nature, and we have the process of production. Let us, for the sake of clearness of thought and exposition, subdivide these two agents. In our discussions we shall consider four agents, more or less distinct from each other, — labor, land, capital, and business management. In actual business life labor and business management are more or less intimately connected; they are aspects of one great force — man. Land and capital are also very closely allied, though by the masses of people they are thought of as being two separate forces. In all the aspects of the production of wealth there is a certain amount, more or less, of each of these agents. In every article produced, to satiate man's wants, there is a part of it which each of these agents has created. The man who tills the soil, and by the aid of nature makes certain simple products, uses to some extent labor and business management, as well as land and capital. In the transportation service, which carries a man from New York to Chicago in eighteen hours, all these agents are at work. In fact, the farmer, the miner, the manufacturer, the transportation agent, and the merchant, of whatsoever line, and to whatsoever degree, all must make use of these four agents.



And we shall treat these agents as being really commodities, which are produced and consumed, bought and sold. They are governed in their quantity, quality, and price by the same general forces and in the same general way as are all other commodities.

*John Maynard Keynes*

## B. AGENTS OF PRODUCTION

### CHAPTER II

#### LABOR A PRODUCING AGENT

**Labor a Producing Agent.** — Though great nature and her forces come first in point of time, it is the marvelous being, man, who stands first in point of importance. Man and the satiation of his wants are the most vital forces in all aspects of wealth consumption. They are also the most vital forces in wealth production. Man, his welfare, and activity, these are the sources from which springs all economic life. That labor, and by this term we mean labor of the ordinary type, should have the first place in our consideration of the agents of production is, therefore, most natural and rational.

**Labor, How Productive :** (a) **Individual Capacity.** — We have seen that the individual as a consumer of wealth is surrounded by the forces of natural and social environment and heredity. So likewise is the individual as a producer of wealth. Not only is he surrounded throughout his life by these forces, but he is also influenced profoundly by them. His capacity for economic

activity and effort, as well as his capacity for economic enjoyment and welfare, are, therefore, only in part of his own making. There is, however, a part of his capacity which is his own, irrespective of his surroundings. But what is this part which is his own? Let us answer this question in the following paragraphs.

**The Individual's Strength, Energy, and Endurance.** — We well know that the laborer's efficiency as a producing agent depends in large measure upon the strength, energy, and endurance of his physical parts — his body. But these qualities in turn depend, to a great extent, (1) upon his inheritance, the muscular and nervous powers and tendencies which have been transmitted to him from his ancestors. They also depend (2) upon the nourishment which they have received before the time when the laborer becomes sufficiently strong to produce utilities for his own consumption. These qualities likewise depend for their efficiency (3) upon the care which the laborer himself bestows upon them; they depend upon the extent to which he properly feeds, clothes, and shelters them, or upon the quantity and quality of the goods he himself consumes. The treatment which the laborer gives to himself is, however, largely influenced by (4) the real wages which he secures as a result of his work. His wages depend, as we shall see under the head

of the distribution of wealth, upon his own efficiency, upon the total supply of labor as compared with the demand for it, and upon the honesty of the employer of his services.

The laborer is influenced not only by the external forces of inheritance and of economic and social environment, but also by the (5) climate and conditions of health in which he lives and works. Climate gives him more vigor and energy, or it makes him lazy. It likewise causes him to supply his body with better food, clothing, and shelter, or permits him to eat less, wear little clothing, and live in a simple hut. The climate of Massachusetts unquestionably makes a laborer more energetic, while that of Louisiana makes him less active. (6) Life in a crowded city, certainly in its most densely populated and squalid portions, has great and profound influence upon the efficiency of the laborer as a producer of wealth. Here vitiated air and lack of sunlight, to say nothing of direst poverty and extreme dissipation which at times prevail in such locations, — these sap his vitality, and undermine his energy and endurance.

**The Individual's Intelligence, Judgment, and Ambition.** — These physical qualities, while fundamentally necessary for efficiency, have need of a guiding force. Pure muscular strength and energy without such a guide can produce but

little. The laborer must also have a brain, as well as a body, before he can become an efficient producing agent; he must have keen intelligence and sound judgment, as well as physical strength and energy. There is, moreover, another mental quality which adds greatly to the efficiency of the laborer—ambition. This is not a regulative force, but a stimulative one; it is one that drives on to further and greater effort. All these mental faculties in the laborer, while they greatly influence the physical ones, are in turn profoundly influenced by them; the health, strength, and energy of the individual have much to do with his intelligence, judgment, and ambition. The mental qualities of the laborer are, therefore, in large part the product of his physical faculties. They are also in large part the resultant of an educational process.

Our public educational systems have been one of our greatest economic forces. They have profoundly impressed and shaped the efficiency of the laborer, have added to his intelligence and judgment, have given him the ability to look far and wide into the present and future, and have created within him both ambition and imagination.

**The Individual's Imagination.**—So long has it been our habit to confuse imagination, a truly great and creative force, with wild and un-

controlled mental traits, that we condemn the laborer who possesses it. Such condemnation is, however, incorrect and unsound. It discourages the culture of one of the greatest of all the mental forces which are at work in the whole economic realm. Imagination in the business world is fundamentally necessary. All forms and qualities of goods are produced according to some pattern, and this model is the result of the imaginative force. All kinds of organization in business activities are likewise constructed first in the mind of man. Muscular energy is necessary in all aspects of production; it is in itself a productive force. But when directed and stimulated by a brain full of intelligence, judgment, and imagination, it is a thousand times, yes, a million times, more productive. It is the possession of such a brain as this that causes one laborer to rise in efficiency far above another, though both may be of the same physical energy, that causes a great captain of industry, a great manager of all the agents and forces of production, to come up from the lowest ranks of common labor. It is such a brain as this that causes a Carnegie or a Rockefeller to rise from the rank and file of the laborers.

**Labor, How Productive: (b) Method of using Individual Capacity.** — We have said that labor

as a producing agent is a commodity, and that it is bought and sold in the main according to the same principles as are ordinary goods. Being a commodity, labor is under competition, more or less depending upon the grade of efficiency and the special line of work. As a rule *one laborer competes with another laborer*, and this condition is largely the true one in all groups and subgroups of work and in all grades of efficiency of service. This does not mean that a laborer who is skilled in a particular field of work competes with those who have no skill in this field. It does mean, however, that all the laborers who are skilled in the same field and are working in that field are competing with each other. Not only does labor compete with labor, but *labor is also competing with the great forces of nature and with capital as producing agents*. Capital, in the shape of machinery, has been the greatest competitor which the laborer has perhaps ever had. The employer of the agents of production, usually called the business manager, is ever applying the principle of substitution, with the view of producing his goods at a cheaper cost and thereby making greater profits. He substitutes labor for capital and capital for labor. He at one time uses more labor and less machinery; at another time less labor and more machinery.

This competition of labor with labor and of labor with capital, while in some respects it tends to stimulate the laborer to greater effort and efficiency as a producer, in many cases brings hardship to him. In this competition, which at times assumes bitter and hostile aspects, the strongest in the main survives; and we mean by the strongest not necessarily the best man in himself, but the one who can use his powers and his environment to the best advantage to himself and perhaps to society. The method of using his labor, especially in selling it to the employer of it, is, therefore, of great and vital importance to the laborer. The method, which has so far been of most advantage to the laborer in his attempts to stand up under the forces of competition and to sell his services at a higher price, is combination. This method gives the laborer not only a great advantage in selling his services to the employer, but also a distinct advantage in stimulating him to develop his own capacity. By means of this method the laborer's services are managed on the labor market by the maximum of skill. By means of the trades unions, or some other organization of labor, the laborer can also make himself a more efficient producer. Combination is the method which brings strength and efficiency to all the agents of production, to the employer or business



manager, as well as to the common worker, though such a method may at times bring serious disturbances into the business world.

**Labor, How Productive: (c) Amount of Labor.**

—The total productiveness of labor depends not only upon the individual's capacity and the method he uses in employing his productive powers, but also upon the total amount of labor in existence. The size of the labor market in any locality largely determines the ability of that locality to produce wealth, and likewise its ability to consume it. The efficiency and quantity of labor are unquestionably great and fundamental elements in a nation's prosperity and progress. We have already spoken of the sources of efficiency. Let us now consider the sources of the quantity of labor. The quantity of labor for any locality depends upon the natural growth of population, the excess of births over deaths, and also upon the migration of population. To the United States, for instance, more than twenty-two million souls have come from other countries since 1821. This increase by migration has been enormously large, to say nothing of the great excess of births over deaths. For those countries which are wholly unaffected by the forces of migration, there is, of course, but one source of the quantity of labor — more births than deaths.

And this population by virtue of natural growth, in consequence of an excess of births over deaths, depends upon many forces. Among these forces climatic conditions are perhaps the most important.

**Climate and Population: in Warmer Climates Greater Growth; in Colder Climates Smaller Growth.**— That the climate has something to do with the size of population, as well as its strength and efficiency, we have abundance of evidence. In the warmer climates, other conditions being anything like equal or similar, we find marriage at an earlier age, a higher marriage rate, and consequently a greater birth rate. We find, on the other hand, that the conditions of living and sanitation in the warmer climates are far less favorable to health than they are in colder ones, and these inferior health conditions tend to keep down the increase of population. In colder climates we have a much lower marriage rate, later marriage, and consequently a much smaller birth rate. In these locations, however, we generally find better sanitary conditions, and these conditions mean a smaller death rate. We, therefore, have a much more rapid growth of population in warmer climates than in colder ones, especially so if the conditions of health are at all favorable.

**Physical Vigor and Population.**—That the natural growth of population should in a large measure depend upon the physical health, strength, and vigor of the individual, follows from the very nature of the reproduction of the human species. Children are not born and cannot be born of invalid parents; there can be no reproduction without physical vigor. The physical qualities necessary for reproduction are, however, largely influenced by the climatic and economic conditions in which the parents live, and these conditions, especially the economic ones, are in a large measure dependent upon the wages received. All other things being equal, higher wages mean a greater birth rate and a smaller death rate. Higher wages make possible more physical vigor on the part of the parents and also better nourishment and sanitary conditions for the child.

**Economic and Social Conditions and Ideals influence Population.**—As we have already seen, economic man is not wholly, or even in large part, individualistic. He is surrounded from the moment of his birth to that of his death, by economic, social, and spiritual forces. He lives in a realm which, to a large degree, is created by nature's forces, by the larger body called society, and by the Great Being who controls and directs all forces and beings. Though he

lives and moves in a world of which he is only in a slight part the maker, man throughout most of his life enjoys some individual freedom and bears some individual responsibility; he has some choice in his own labors, thoughts, and feelings. His freedom is, however, always a relative, not an absolute quantity. The external forces and influences which always surround him do not all the time make equally powerful impressions upon him. The individual's desires and acts are, therefore, in part his own, and also in part the result of his peculiar economic, social, or religious surroundings. Man's environment, as well as his individual instincts and desires, has much influence upon the strength and the amount of population. Let us consider the influence which economic and social conditions and ideals have upon the growth of population in the following classes.

(1) *The Unskilled Class and Population; Greatest Growth.*—It is among the lowest ranks of society that we have, as a rule, the greatest birth rate. The unskilled man, the laborer who has only muscular and nervous energy to use and sell, receives as large wages at twenty years of age as he does at forty. He does not earn his wages by skill, which it takes many years to acquire. If his wages are maximum at twenty, the tendency is for him to

marry at this age, if not at an earlier one. Laborers of this class, therefore, marry while they are young, and many children are born unto them, if their conditions of living are such as to cause them to be vigorous in their physical qualities. When surrounded by climatic, economic, and sanitary conditions, which bring health to themselves and their children, this class will double itself in thirty years and increase a million fold in six hundred years, if pestilence or war does not take them away.

As yet, however, the world has never by any means witnessed such a marvelous increase in its laborers. We may with sufficient reason expect to see great improvement in the conditions of the health and strength of the masses, but whether the future shall behold such a great multiplication of the race as this, no thoughtful man will predict. Modern action and thought all look toward better and more efficient conditions of human life. The task of caring for the sick and the infirm, as well as that of eliminating the conditions which breed these, is more and more being overcome. It is not only necessary that the conditions of health be greatly improved, but it is also necessary that wealth be wonderfully increased before we can have such a great growth of population. When population increases at a greater rate than does wealth, wages

decrease, and with a decrease in wages we always have a falling off in the birth rate and oftentimes an increase in the death rate.

(2) *The Rich and Population; Smallest Growth.* — While among the unskilled workers we may with good reason expect a very considerable, if not a very large increase, among the highest classes of our economic society we shall probably have but a very slight growth. This small increase among the rich, among the industrial managers and captains, is most certainly not because of economic conditions. It is because of economic, and especially social, ideals. The parents of this class can surround their children with the best possible conditions of health, but still the excess of births over deaths is very slight. These parents, for some reason or other, do not desire to have many children, at least to care for many children. The cause, while somewhat due to economic ideals, is very largely social. The social ideal among a great number of this class is at present most strongly set against large families. A large family interferes with the social pleasures and dissipations, and for this reason largely we find but few children in the homes of the very rich.

(3) *The Skilled Class and Population; Moderate Growth.* — Between these two great extremes, between the unskilled laborer with his

numerous children and the highly skilled and great producer with his very small family, stands a middle class. Upon this class the social ideals in reference to children have very much less influence than is the case with the highest class. With the parents of this class, however, economic conditions and ideals, especially the economic future of both parent and child, have great and weighty considerations. Among these workers the average age of marriage is high, and consequently the birth rate is lower. They do not receive their maximum wages until, perhaps, at the age of thirty-five; they must acquire their skill, as well as their physical maturity, before they can become the most efficient producers. These economic conditions tend to postpone marriage for this class of laborers, and with marriage later in life fewer children are born unto them. But, as we have said, social ideals have comparatively slight influence upon their thought and action—to them a baby is not a great social hindrance, and, though they marry later in life than do the highest social classes, more children are born unto them.

**Great Growth of Population in the United States.**

— For all of these classes modern science, medicine, philanthropy, and governmental regulation have produced marvelous results. The death rate of each class has in many places been greatly

diminished. Population consequently tends to increase more rapidly, notwithstanding the fact that there is, because of certain social and economic ideals, a counter-tendency working to diminish it. This counter-tendency has, however, not been very strong, especially in our own country. Throughout our life as a nation, we have grown rapidly of ourselves: *by our excess of births over deaths*. Our blood has been strong, vigorous, and highly reproductive. We have likewise borrowed, so to speak, sons and daughters from the four quarters of the globe; *from 1821 to 1903 more than twenty-one million foreigners came to our shores*.

In 1790, when we began our national existence, we had less than four million people. By 1900 we had increased to the enormous figure of seventy-five millions. From 1790 to 1860 we doubled in population three times; we increased from 3,929,214 to 31,443,321. The world has, perhaps, no parallel to this increase of population, at least upon an equal scale. And the vast crowds of foreigners who have come to us have almost exclusively settled in the sections of the North and West. For the states of these sections the immigrants, of almost the lowest of the economic and social ranks and of almost all the nationalities and religious sects, constitute not only one of the greatest of all



economic problems, but also one of the most perplexing of all social and political problems. On the other hand, to the states at the South, where there are at present about eight million negroes, the negro is beyond a doubt a most serious industrial, political, and social problem.

Our gigantic growth in population, along with the great and extensive *westward movement* which has accompanied it, has perhaps been the greatest factor in our rapid and wonderful economic life and development. Along with this increase of labor, along with this movement westward to fields new and marvelously endowed by nature, has been another fundamentally important movement—*the growth of American cities*. In 1800 only four per cent of our population dwelt in towns of eight thousand or more. By 1900 thirty-three per cent of our people lived in cities,—an extraordinary increase within a century. Many of the foreigners who have come to us have settled within our cities and have greatly swelled their population. So quickly have our cities grown, so great have been their economic problems, as well as those of their government, that we have not by any means mastered them.

This marvelous increase in American labor has not, however, been in excess of the growth in American wealth. While our population

grew from thirty-one million in 1860 to seventy-five million in 1900, our wealth grew during these years at a still greater ratio. When the civil war began, the American people possessed wealth valued at about \$16,000,000,000. When the nineteenth century came to a close, this wealth had grown to the enormous figure of about \$94,000,000,000.

**Labor, How Productive: (d) Amount of the Other Agents; the Demand for Labor.** — In all of the aspects of the productiveness of labor, which we have just considered, we have assumed that labor is at work with the other agents of production — land, capital, and business management — in some proportion or other. Labor in connection with the other agents produces wealth, and the part that it produces in each article, which they together create, depends upon the efficiency and quantity of these agents, as well as upon the efficiency and quantity of labor. We have under this assumption discussed the productive powers of labor from the point of view of the individual's capacity and the method of using it, and also from the point of view of the quantity of labor.

It is now necessary to explain our assumption and to speak more fully of the relation of the productiveness of labor to the quantity and quality of the other agents with which it works.

If the amount of labor is small as compared with the demand for it, that is if the quantity of labor is small as compared with that of capital and the other agents, the individual laborer produces more wealth; he works with more efficient instruments and employs his energy to greater advantage. On the other hand, increase the quantity of labor, its quality remaining the same and the demand for it remaining the same, and the individual laborer produces less wealth; he employs his energy to less advantage. In the United States, labor, while it has within the last century increased with wonderful rapidity, has not yet increased as rapidly as has wealth. Its supply is not great as compared with the demand for it, and consequently the individual laborer produces much wealth and receives much wealth in wages. In China, on the other hand, the supply of labor is enormous as compared with the demand for it. There the individual laborer produces little and consequently receives little in wages.

### QUESTIONS

- (1) Upon what does the productive power of the laborer depend?
- (2) What does a great population have to do with the production of wealth?
- (3) Does an increase in the wealth of a community cause its native population to increase?

(4) Does a warm climate make it possible to produce great wealth?

(5) How may North Carolina and Nebraska increase the quantity and efficiency of their labor?

(6) Does a large number of efficient laborers increase the welfare of a community?

## CHAPTER III

### LAND A PRODUCING AGENT

**Nature in Production; Land and the Forces of Nature.** — We have already said that, in the production of utilities which can satiate or help to satiate human wants, man and nature work together. Man alone cannot produce such utilities; neither can nature alone. When these two forces, or sets of forces as they really are, work in connection with each other, wealth in many forms and in great quantities may be produced. The productiveness of a part of the first set of these forces — the productiveness of ordinary labor — has already been considered. Later we shall treat of the other part of the first set of forces — business management. Let us now take into our consideration the set of forces called nature.

The first and most important element of these forces of nature has always been thought to be land and its accompaniments — water, air, light, and heat. When the men of ancient or mediæval times spoke of nature as a producing agent, they had in their mind the vision of soil and of the agricultural products which man working with it might create. When to-day we

speak of nature as a producing agent, we think of something more than soil and its allied forces. We have the vision of extended space upon which to build our houses, factories, and railways; we have the vision of soil yielding forth, under the pressure of man, manifold kinds of vegetable products; we have the vision of water, steam, and electricity, being made the playthings, so to speak, as well as the mighty motive forces of man; we have also the vision of great stores of minerals which nature throughout her long existence has gradually accumulated. In our present discussion, we shall, however, treat exclusively of land and its accompanying forces — of land as a producing agent. The great motive powers and mineral resources, as we understand them as producing agents, more truly belong to capital than to land. The business man thinks of his water, steam, or electric plant, and his mines, as a part of his capital, rather than as a part of his land, though each plant makes use of a certain quantity of land. In fact, the distinction between land and certain forms of capital as producing agents is very slight. They could, therefore, be very properly treated the one under the head of the other. But in our treatment we shall, chiefly for the sake of clearness of thought, keep them separate and distinct.

Land has always been thought by man to be a producing agent and consequently a part of his wealth, whether he owns it himself or in common with his fellow-men. He has used its smaller vegetable growth for the pasturage of his flocks and herds, and the larger growth for his own fuel. He has made use of its fertility for agricultural purposes, its space extension for buildings, and some of its minerals as instruments in his own hands for greater production; and in all of these uses land has productive power. The productive power of this agent, as that of labor, depends upon its various properties and the method of their use.

**Land, How Productive : (a) Fertility and Mechanical Properties of Tillage.** — Upon the whole, land is used more for agricultural purposes than for any other, and for such uses the most important property is its fertility — the chemical compounds and agents which it possesses. But, in connection with its chemical properties, there must also be certain mechanical properties. It is not only necessary to have fertility, but it is also necessary to have a soil that can be tilled, a soil through which the roots of vegetation may enter and water permeate. Trees and vegetables do not grow and cannot be made to grow upon solid rock. On the other hand, land without fertility will not produce utilities,

though it possesses all of the mechanical properties needed for the roots of vegetation; these roots must be fed by the soil, as well as surrounded by it.

Land, with all of its wonderful chemical and mechanical properties, when left to itself, is really not a producer of wealth. It produces no material form which, unchanged by man, may be thought of as wealth in the sense in which we use the term. And its products, which may be transformed by man into utilities for the satiation of his wants, are created very slowly by nature alone. When, however, man, by means of his own strength alone, or by means of this strength, and also certain instruments of power which he and nature have produced, works with land and her forces, its useful products grow and multiply with wonderful rapidity. Man may merely till the soil by means of his plow and hoe, and thereby make its mechanical properties loose so that roots and rains may easily enter them. He may also, by adding reagents — fertilizers, manures, and ashes — completely change the chemical compounds. These chemical and mechanical properties of land, from which man may bring forth fruits, vegetables, and plants, are in part the gift of nature, and in part the result of man's labors and expenditures upon them. At times



we find lands which nature has made not only fertile, but also loose and mellow. At other times the fertility and looseness of the soil are largely the result of the expenditures of wealth and labor on the part of man.

**Land, How Productive : (b) Light, Heat, and Water.**—Fertility and the mechanical properties of soil, though fundamentally necessary for agricultural uses, are not the only elements of soil which possess productive power. There must also be sufficient light, heat, and water before vegetation can grow and bring forth its ripened fruits. Let us take into our consideration some illustrations. The farmer of northern Maine may possess the most fertile and easily tilled lands. If his summers are short, his summer sky largely overcast with clouds, and the temperature low, he produces but little, though his acres be many, soft, and rich, and though he till them with the maximum amount of skill and scientific knowledge. On the other hand, the fertile and mellow lands of the far South or of the West, which lie under clear and scorching suns, will yield but little unless there is a large amount of rainfall or a great supply of water by means of irrigation canals.

**Land, How Productive : (c) Extension or Amount of.**—Lands used for mining purposes, lands from which are extracted the minerals that

nature through long periods has deposited in certain places, need not possess any of these properties which we have just considered. It makes little difference whether land for these uses be fertile or poor, loose or stiff, hot or cold, moist or dry. Likewise in land for building or transportation purposes little use is made of these properties which are so fundamentally and vitally necessary in agriculture. There is, however, one property which is absolutely necessary for all uses of land, and that is its space extension. This property is not only fundamentally necessary for all uses of land, but it is also fundamentally necessary for all aspects of man's life, whether he works with land, capital, or the mighty motive powers of nature, and whether he creates the simplest or the greatest and highest forms of wealth. This property is necessary for him as a producer and as a consumer. Space extension or the amount of land, just as the amount of labor, has much to do with its total productiveness. The greater the quantity of land, other things being at all equal, the greater the productive power of a nation or of a community.

That the quantity of land has been recognized by the American people as a great factor of production requires no detailed argument. The history of our wonderful economic life, as

well as of our governmental conduct, is full of proof to this effect. We at first possessed only the narrow strip along the Atlantic seaboard. We later moved across the mountains into the fertile and extensive acres lying to the east of the Mississippi River. We then by leaps and bounds went to the Pacific Ocean—a territorial expansion the like of which the world had never before seen, at least within such a short space of time.

**Land, How Productive: (d) Situation.**—The chemical and mechanical properties and the climatic surroundings, as well as the extent of land, are not its only elements of productivity. The location of land is also a great factor in its ability to produce wealth. The farmer and miner, the manufacturer and transportation agent, the merchant and the owner of houses for rent,—men in all aspects of the business realm recognize this element as an exceedingly important one. The distance of certain lands from large towns or cities, and from transportation facilities by water or land, is a gigantic element in their productive power.

The situation element of land, which has become of such great importance, is in part the result of nature, but in larger part the product of man. As individuals have more and more congregated upon certain favorable spots, as towns

and cities have grown to enormous proportions, and as means of transportation between these cities have been perfected, a new and marvelously great element has been given to the land situated within or near these mighty centers of population. Select one acre of land in middle North Carolina, which possesses an average of fertility and properties of tillage, which has an abundance of light, heat, and moisture, and you can purchase it for \$20. Select in certain portions of New York City one acre of land which is possessed of exactly the same properties, so far as nature can create these properties, and you will have to pay \$1,000,000. Why the enormous difference in the price? We believe that this vast difference in price is a fair representation of the difference in productive power. But what has created this great difference in productiveness? Nature certainly has not to any very great degree. It is man. Economic society has established upon the land of New York City its great American center, in fact one of the greatest centers of the whole world. The productive power of land, not only in New York City but also for many miles outside of it, has been greatly increased by the very fact that New York has become such a great economic center.

**Land, How Productive: (e) Amount of the Other Agents of Production; the Demand for**

**Land.** — All of the properties of land, of which we have spoken, are more or less relative properties. They depend for their productivity to a large extent upon the amount of labor, capital, and business management employed with them — that is upon their uses and the method of their uses. As we have already seen, their agricultural products depend largely upon the amount of fertilization and tillage. These products also depend to a great extent upon the kind of crops, as well as their rotation, which man attempts to plant upon the land. Many an acre of soil produces little because it is poor in its fertility and because its tillage is insufficient. Many an acre, though by nature supplied with many and rich properties, produces little because the method of cultivation is thoroughly unscientific and because the same crop is year after year planted upon it.

Agriculture has been profoundly changed, in fact revolutionized, within the last century. Some of these changes have come as a result of man's taking up new land, as a result of a vast and unparalleled territorial expansion. The American farmer has moved westward. As his old lands, from the point of view of tillage, have become less and less productive, he has cleared new fields, and has gone to other fields whose natural resources have not as yet been worked

by man. Most of the recent agricultural changes have, however, come from other sources than that of territorial expansion. They have come as a resultant of new and scientific methods of tillage and fertilization. The farmer has now in many locations ceased to strive for extensive acres, for extensive farming. He now spends his labor, capital, and business management upon fewer acres; he now farms more and more intensively. He changes the chemical compounds of his soil to meet the needs of the crop he desires to plant, and he also plows his soil thoroughly and deep. He has learned the vitally important lesson that from one acre, from which he formerly received but four bushels of wheat, he can by means of a slight increase in the labor, capital, and business management expended upon it receive thirty or forty bushels. He is likewise beginning to learn a no less important lesson: that planting his soil from year to year with the same seed soon exhausts the chemical properties which are needed for the nourishment of this seed. He is learning that no soil possesses one kind of properties in inexhaustible quantities, and that all soils possess many different properties in smaller or greater quantities. Many farmers now realize, and very fortunate would it be if all of them could learn the lesson, that to grow cotton, for instance, for

years upon the same soil is the most extravagant and wasteful consumption of its natural utilities. It is, therefore, manifest that the productiveness of land for agricultural uses is largely dependent upon the labor, capital, and business management applied to it.

This is equally a characteristic of land used for mining, building, or transportation purposes. The richest vein of gold in the world will yield comparatively slight results unless there is employed upon its production, its extraction, a sufficient quantity of capital and labor. Nature, as a rule, does not yield her products without being hard pressed by man. Her great and extensive treasures are hidden far beneath the surface, and man must put forth all of his effort and ingenuity before he can convert many of them into wealth, into utilities for the satiation of his own wants.

**Land, How Productive: (f) Increasing and Decreasing Returns.** — Land as a producing agent, whether for agricultural, mining, or building purposes, produces wealth or utilities according to certain tendencies which we may call economic laws.<sup>1</sup> We have already seen that the

<sup>1</sup> Economic laws are not so unchanging as are the laws of nature, as for instance those of chemistry, physics, or mathematics. Their data are always more or less changing ; they have a large human element in them. They are only statements of the tendencies of forces which are themselves to an extent changing.

productiveness of land depends upon its natural properties, upon the uses which are made of them, and upon the quantity of labor, capital, and management employed in working these properties. We have also seen that soil in bearing from year to year the same kind of crop, wheat or cotton for instance, will bring forth less product as the years go by. As the properties which nourish these plants are gradually used up or consumed, the results of applying a certain amount of labor, capital, and business management upon the soil will decrease from season to season. If, then, corn, instead of wheat or cotton, is from season to season grown upon this soil, we will have the same tendency — decreasing returns. Wheat exhausts the wheat-nourishing properties, and cotton the cotton-feeding properties. For a time the properties which are required for the growth of corn are perhaps present in large quantities. The returns yielded to the labor, capital, and business management employed upon the soil will, therefore, for a time be large, perhaps increasing, but sooner or later these corn-feeding properties, like those of wheat or cotton, will begin to be exhausted and the returns to man's labor and capital will decrease.

In these two cases we have assumed that the tendency to decreasing returns in farming is



due to the fact that the properties which nature supplies are gradually exhausted and that the farmer does not attempt to replace them. Let him attempt to replace them, let him add more and more of labor, capital, and business management to the acre as the seasons go by, and what of his returns? He may for a time receive more and more bushels or pounds per acre and per unit of the amount of the other agents of production employed, but the time will come when the increase in his harvest will not be in proportion to the increase in the agents he uses; he will come to a point of diminishing returns to his labor and capital. It will now pay him to employ a part of these agents upon other acres instead of those which he has been tilling.

This tendency to decreasing returns, of which we have had two illustrations, is universal. It not only applies to all uses of land, but it also applies to all the other agents of production, — to labor, capital, and business management, — though its application to land is possibly more universal than it is to any of the other agents. While this tendency has been declared to be universal, to be in all groups of production, it does not by any means prevail at all times in any one group. We have already said, that, by changing the crop or the method

of tillage and fertilization, we may have for a time increasing returns, not only to the soil but also to the other agents employed upon it. In fact, all agents may at times have increasing returns or products, at other times constant returns, and at other times decreasing returns. The productive power of any of the agents is not an absolutely definite and permanent quantity and quality, and these agents are, therefore, not equally productive at all times.

**Land and the Other Natural Forces.**— We have spoken of certain natural forces which are at work in connection with land, — light, heat, and water. We have seen that a certain amount of these forces is necessary in all phases of production. These forces as mighty motive powers have, however, not always been employed in production. Though they have always existed in nature, it has been within very modern times that they have been localized and applied by man as the great propelling forces in production. Nature has always supplied these forces in abundance, but only recently has man made extensive use of them in his attempts to produce forms of wealth. For centuries and centuries he employed his own muscular energy or that of domestic animals as his motive power. It was not until the latter part of the eighteenth century that man began to make use of water

as such a power and to apply its gigantic force to machinery. Machinery driven by water now works upon nature and her forces, and the products are wonderfully multiplied. A great and vital change has come into our economic life — a fundamental revolution in our industries. During the next century, the famous nineteenth, water is transformed into steam and steam becomes the magic power in all phases of production. With this new force comes a greater and far more wonderful life. This marvelous century has, however, not come to a close before another force of nature is handled and used by man to perform his tasks and to carry his thoughts to all parts of the world — electricity.

This wonderful power is to revolutionize, time and again, our whole economic realm. The wasteful consumption of the water which propels our shafting and wheels, the wasteful and extravagant consumption of wood and coal, the powers of which are converted into heat and the heat into steam for the propelling of our machinery, — all of this enormous waste in the consumption of nature's energies is gradually being diminished. Man is becoming more and more economical in his use of these mighty forces. The energies of water, wood, and coal are now being converted directly into motive power — into electricity.

QUESTIONS

- (1) How much does nature aid man in producing wheat, cotton, or houses?
- (2) Upon what does the productive power of an acre of land depend?
- (3) Will a man employ his lands in growing cotton, corn, or fruits?
- (4) Will a man employ his lands for dwelling houses, business houses, or factories?
- (5) Is land an important element in your life and welfare?

## CHAPTER IV

### CAPITAL A PRODUCING AGENT

**The Relation of Capital to Production.**— We have already said that, in the production of utilities or forms of wealth, man works upon nature, not only by means of his own energy but also by means of certain instruments which make use of the mighty motive forces of nature. In order to produce utilities, on a large scale at least, man must work not only with land and natural forces but also with those instruments of production which we call capital.

**The Nature of Capital.**— These instruments, as well as all the other forms of wealth, are the products of nature and man working together. They are in part produced by nature, and they always employ the powers of nature. They are also produced by man, but still they are not a part of his own being or qualities, they are not a part of his natural talent or acquired skill. Capital, while not a part of the individual's being, is a very important portion of his wealth. It is also one of the great instruments which he employs in creating more wealth. Capital, as well as land, is external to man, and both of these agents should be instruments for the

promotion of welfare to himself and to his fellow-beings. They should never become the masters of the individual or of society.

Capital and labor may both be looked upon in an abstract way, as being abstract forces, but as producing agents they assume certain concrete and definite forms. We may in an abstract sense use the term "labor," but in the actual production of wealth it is a laborer, not labor in the abstract, who helps to create utilities. Likewise we may use the term "capital" in an abstract sense, but it is a certain and definite form of capital, a concrete body into which capital has embodied itself, which helps to produce wealth. Capital, in the shape of buildings, tools, machines, rolling stock, raw material, finished goods, money, etc., — capital in these and many other forms is the agent of production. These forms of capital are constantly changing, though the abstract force is more or less permanent. And this characteristic is equally true of labor, as a producing agent. The forms of labor, the individual laborers, are continually changing, but labor, in some form, is more or less a permanent force. In fact, all agents of production are abstract and more or less permanent forces, but in creating utilities they work in tangible and concrete forms.

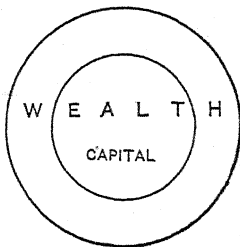
**Capital, How Productive : (a) Amount of. — Of**

capital in the abstract one unit is as productive as another unit. In the concrete, in the certain forms into which capital is embodied, one unit may be more or less productive than another unit, but only for a time. The ideal in the long run is equal productivity to all the units. In this particular capital is different, though only slightly, from labor and land as producing agents. The productive power of labor, as we have seen, depends upon the individual's capacity, the method of its use, the number of individuals, and also upon the quantity of the other agents employed in connection with labor. Likewise the productivity of land depends upon its fertility, the method and purpose of its use, its situation, its quantity, and the amount of the other agents used with land. The productive power of capital, on the other hand, depends much more largely upon its quantity, though the purpose and method of its use, as well as the amounts of the other agents, have much to do with its productivity. The growth of capital is, therefore, a vitally important thing. The greater the amount of capital, other things being equal, the greater its total productiveness.

**Growth of Capital.** — During the many centuries prior to the nineteenth the increase of capital was comparatively slow. There was during all these centuries much wealth produced, but there was likewise much of it consumed, either

by the individual or by the state. As compared with the production of wealth within recent years, little was, however, done by the ancient, mediæval, and early modern peoples. Likewise among these peoples the principle of saving for the future was by no means strong. To them the economic future was not at all a certain thing. They knew not at what moment their savings might be snatched from them, either by individuals or by the government, of which the people then had little part. Their failure to save for the future was due not only to the lack of security, but also to a lack of economic knowledge and foresight. Man did not then begin to realize the great and marvelous productive power of capital as an agent in creating wealth. Wealth, as he understood it, was to be consumed in the present, to satiate the present wants, rather than to be accumulated and saved for the future, to satiate future wants or to aid in producing more wealth. Increase in wealth and capital<sup>1</sup>

<sup>1</sup> Wealth includes capital and much more than capital. Capital is only the part of a man's wealth which is set aside, not for present consumption but for use as an agent in producing more wealth, for making an income. Let us illustrate this point by means of a diagram. The larger circle represents wealth, while the smaller one represents capital.





is, therefore, due to at least two sets of forces — to social and governmental security, and to intelligence and foresight on the part of the individual.

Let us trace the development and growth of these ideas and forces.

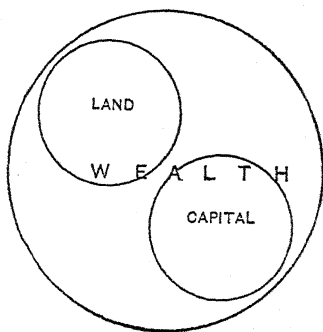
(1) *In the lower stages of economic civilization*, usually called the fishing and hunting or Indian stage, the idea of capital can scarcely be said to exist. There exists, however, among these primitive peoples certain forms of wealth and capital. Their instruments of fishing and hunting are for them agents of production, though they perhaps hardly begin to appreciate the fact. Among such a people the growth of wealth and capital is, therefore, exceedingly slow, if indeed there is any increase at all. They care little for their economic future, and capital plays a very small and insignificant part in their life.

(2) *In a higher stage of civilization*, when flocks, herds, lands, and mechanical appliances belong to man, when his tent has become a permanent structure of wood or stone, a home for himself and his family, the ideas of wealth and capital are far greater and more important. Capital is now beginning to be recognized as a productive power for the present and the future, and the future, because of more and more efficient government, is becoming much

more certain and secure. Still labor and land<sup>1</sup> are the chief agents in the production of wealth. Among such a people the desire to save something, to lay aside something of each day's products for future use, and to add to capital because it has productive power for them, is becoming stronger and stronger. In this stage man becomes a far greater economic factor; his intelligence and welfare, as well as his capital, have greatly increased. He also becomes a better citizen in the society in which he lives and puts forth his activity and effort. The productive power and citizenship of the southern negroes, for instance,—and unfortunately for themselves and their communities many of them still live in the most primitive of all the stages of economic life,—will be greatly enhanced when they become the possessors of more wealth and capital.

(3) *There is still a higher stage of economic civilization, popularly called industrialism. In this*

<sup>1</sup> Land, as we have said, may be regarded as a part of capital, but largely for the sake of clearness of thought we treat it under a separate head.



stage capital plays a more and more important and vital part; it becomes a great and powerful producing agent. Order and peace now prevail, and the economic future is more secure, since the government has become a permanent and efficient institution. Pasturage and farming are no longer the all-absorbing groups of economic activity. Mining, manufacture, transportation, and commerce are also developing. The miner and the manufacturer, the transportation agent and the merchant, all have need of much more capital than does the hunter, the keeper of flocks, or the tiller of the soil. Their need of capital is exceedingly great. They must have all of the mechanical appliances, tools, and machines, with which to make use of the mighty forces of nature as motive power; they must have great buildings, plants, and rolling stock; they must have large quantities of raw material and finished goods. In this stage we have, therefore, the greatest growth of capital and wealth. Man now produces more wealth, and though he consumes greater quantities of it, he saves much to be used as an agent in producing more wealth—to be employed as capital. He accumulates wealth and uses a part of it as capital, and this capital makes it possible for him to produce more wealth.

**Capital, How Productive: (b) Form of.**—In the

foregoing discussion we have for the most part assumed that capital in all of its forms is equally productive. As we have already said, this assumption is not by any means wholly true of capital in the actual business world, though it is in the long run the ideal or standard. Capital embodied in cotton lands and their tillage produces more wealth at one season than at another. Capital employed in houses constructed for the purpose of rent produces more wealth in one place than in another, and in the same location more at one time and less at another. Capital invested in the Southern Railway Company produces at times more than that used in the Great Northern Railway Corporation, while at other times it produces less. Capital, as a producing agent, is, therefore, in many respects like labor and land; its productive power depends to an extent upon the purposes of its use, as well as upon the amount of it and the method of its employment.

Capital in the abstract is always mobile; it can go without hindrance or loss from one group or subgroup of industries to another. Capital in the abstract moves from the place where it is least productive to the place where it is most productive. In its concrete form — in lands, houses, machinery, and goods, of various kinds — it is, however, by no means

readily mobile, at least in many of its forms. Very frequently is it in such a shape that it cannot be changed from one form to another without great loss. To convert, within a few days, the capital invested in a cotton mill or that in a railway plant into another form is practically impossible. In a very general way, capital, land, and labor each competes within its own forms, and all these agents compete with each other. In a very general way they are, therefore, all more or less mobile. They have the ability to move from one group of work which yields smaller returns to another group which yields greater returns, but it requires time, and even loss, for this movement on the part of either of these agents to take place.

**Capital, How Productive : (c) Method of using it; Amount of the Other Agents.** — We have seen that the productive power of capital depends upon its quantity and the form of its embodiment. This power also depends upon the method with which capital is employed and the quantity of the other agents at work with it. Its productiveness is largely dependent upon the raw material, labor, and business management used with it. Capital can produce no wealth whatever unless it can be employed with labor, both of the ordinary and the managing type. Man must use and manage this

agent before it can produce wealth in any form. A locomotive, it makes no difference how strong and efficient it may be, cannot create transportation services without man to feed its furnace, oil its machinery, and guide its movement in speed and direction. And this locomotive can produce but very little wealth when only one man is employed with it. Assign to it all the laborers needed for its care and guidance, its coal and water, the rails upon which it moves, and the bed necessary for their support, and its products are a thousand fold greater.

The method of using capital in connection with certain amounts of the other agents—labor, land, and business management—has assumed many different shapes. At one time capital exists in small quantities, and is used by the individual possessor to assist him in gaining a greater control over nature and her forces; is used to aid him in producing utilities which can satiate his wants. At another time capital exists in greater quantities, and many individuals join together in the employment of it for agricultural, mining, manufacturing, transportation, or mercantile uses. We have the individual manager of capital as a producing agent. We have private partnerships and small corporations. We have also, and at present,

to an enormous extent, the great joint stock corporations. Each of these organizations, as well as each individual manager of capital, is employing its capital for all uses and phases of production, and according to the plan and method which seem to bring the greatest possible returns for its productive powers.

**Capital and Capitalistic Production; Its General Results.**—Throughout the history of all the stages of economic life there has been more or less of capital employed in the production of wealth, though at times the quantity has been exceedingly small and its application in the crudest possible manner. The bow and the arrow of the barbarous Indian are his capital, as are also the crude plow and the ox of the Southern negro. But capital was not for centuries and centuries a great agent of the production of wealth. In fact it has become a very great agent only within the last few decades, and for only a few of the more advanced sections of the world. Throughout the vast territory of Asia and in many parts of Europe and the American continents, it is labor which is still the great and vitally important agent of production. In a very few places and in a very few groups of industry, however, capital managed by large business organizations has come to the front and is now the dominant force in

the production of all kinds of utilities. With the coming of capitalistic production, whether capital plays a dominant or only a very important part, has also come a profound revolution in the economic aspects of life, and in the political and social as well. Capitalistic production has radically changed the location and methods of industries, shifted population from one section to another, made rich and powerful individuals and classes who were formerly poor and low. It has also added enormously to our wealth, and in a very considerable measure it has caused our welfare to be multiplied.

#### QUESTIONS

(1) How much wealth can a man without the aid of capital produce?

(2) Why do you reserve a part of your wealth for future consumption?

(3) Why does a man set aside a part of his wealth to be used as capital?

(4) Will a man make use of his capital in the cultivation of cotton or wheat, or in the building of factories or railways?

(5) Without capital is it possible for man to use machinery in the production of wealth?

(6) Without capital is it possible for man to use water, steam, and electricity as motive powers in the production of wealth?

(7) Does capital add to your welfare?



## CHAPTER V

### BUSINESS MANAGEMENT A PRODUCING AGENT

**Business Management in all Aspects of Production.** — Without some form of organization, production on a scale worthy of mention is practically impossible. Primitive man, working by himself upon nature and producing a few simple products, is unorganized in his activity and effort, but his labor is, nevertheless, under some guidance, though it be that of his own undeveloped brain. There is in this case of production a semblance of business management. When this primitive man employs the labor of another man, or of several men, to work upon his land and with the capital which he possesses or has the use of, we have the principle of business management in operation upon a much larger scale. In all the aspects of production — in agriculture, mining, manufacture, transportation, or commerce — we have another agent in addition to those which we have just considered; we have business management. In some phases of production this agent is a very minor one, while in others it is

the most important one. This agent is, therefore, always at work, in some proportion or other.

**Importance of Business Management.** — As we have seen, there is need of some business management in the most primitive stage of economic life, even among the people who do not differentiate and specialize in their agents of production. As economic life becomes more advanced, and more extensive and complex, the agents of production become not only more important but also more specialized. Now four agents stand out as more or less separate and distinct, and each of these agents begins to subdivide itself into many groups and subgroups. We now have many different grades of labor, and each grade is employed along a different line of work. We have land used for the cultivation of wheat, corn, cotton, trees, etc., as well as for all the various kinds of building, mining, and transportation uses. We have also capital invested in lands, tools, machines, and goods, each of manifold varieties. Modern economic life, in the phases of both consumption and production, has seen differentiation and specialization carried to a wonderfully great degree. And with all these changes in economic life has come a greater need for a directing and connecting force — for business

management in its various forms. The wants and demands of the consumer have become very extensive and complex, and the problems of the producer, in order to supply utilities which can satiate these wants, have grown to enormous proportions. The demand for a guiding force, which can adjust all of the agents and instruments of production to each other and to the demands of the consumer, has become so great, that business management has come to be one of the greatest forces of the whole economic realm.

**Work of Business Management.** — Not only are the problems of the producer, in order to meet the changing demands of the consumer, becoming greater and more complex, but many of the forces and methods of production are also at the same time changing. Labor, land, and capital are, as we have seen, always changing in both quantity and quality. The problem of their supply as compared with the demand for them is ever, therefore, a most difficult one. The business manager must assume all the risks of producing goods which will meet with the favor of the consumer, which will satiate his many and even fickle wants. The demands of the consumer, in whom fashion is a constantly changing force, can never be exactly calculated. To produce goods in quantities sufficient to

supply these demands and not to glut the market, to use a term which is so well known on the market, is a problem of exceedingly great difficulty and importance.

This is, however, only one of the producer's many most perplexing problems. He must not only supply the consumer's present wants but also help to create in him new and different wants. He must likewise adjust to each other all of the agents of production of which he makes use, and this is a very delicate task. In order to sell his goods to the consumer, and make profits from their sale, he must, as a rule, produce them at a minimum cost. If the producer is in a field in which there is strong competition, in which he must compete with other able producers for the favor of the consumer,—and this is more or less the true condition of most producers,—he must produce his goods at a lower cost in order to outsell his competitors. If the producer is a monopolist, if he entirely controls the supply of a certain goods, and, therefore, has no present competition, he likewise must produce at a minimum cost. He must produce his goods at a low cost in order to sell that quantity which will bring maximum profits. He is most certainly aware of the fact that the consumer's demands vary inversely with the price which the producer asks for his goods.

He is also very eager to keep out a future competitor. All producers, as a rule, are, therefore, striving to produce their articles at the lowest possible cost and to sell them to the consumer at the highest possible price. To do this requires the greatest possible skill in managing the agents and forces of production, as well as the demand of the consumer.

The business manager, in order to produce his goods in the most economical way, is ever making experiments with his agents and forces of production. How much labor of one grade of skill and how much of another he shall employ with a certain quantity of land and capital, is to him a daily problem of no small consequence. How much capital in one machine or instrument and how much in another, this is likewise a vitally important and constant question. Shall he employ negroes or whites, non-union or union laborers? Shall he make use of the muscular strength of man and animals as a motive power? Shall he use water, steam, or electricity? Shall he produce one kind of manufactured goods or another? Shall he create transportation or commercial services? Shall he produce upon a small or upon a large scale? These are some of the many problems which always confront business management, and in solving some of these problems the

modern business realm has produced such managers as Carnegie and Rockefeller, industrial captains the like of which the world has never before seen.

**Business Management, How Productive.** — That there is an overwhelming need of business management in every field and phase of the production of wealth, is now clear. It is likewise manifest that management is a producing agent, that it creates a part of every conceivable article of consumption, and adds utility to every article. The productiveness of this agent, like the productiveness of labor, land, and capital, depends upon its own qualities or inherent properties, the amount of these qualities, the method employed in making use of these, and the quantity and quality of the other agents employed with them. The inherent properties of this agent are, however, different from those of the other agents; they are far more mental. To be sure, the properties of the common laborer as an agent of production are to a degree mental, but their productive power is very largely dependent upon the amount of muscular and nervous energy and strength which the individual laborer possesses. The productive power of the business manager is, on the other hand, much more dependent upon his mental skill in dealing with the very complex, physical,

and mental wants of the consumer and with all the manifold and complicated aspects of the agents and forces of production. It depends very largely upon the manager's judgment concerning men and things and his foresight in the business world. The productive power of business management likewise depends upon the quantity of itself and of the other agents which it can make use of—the quantities of labor, capital, and land—and also upon the forms and methods which the management adopts.

**Business Management, How Productive: (a) Quantity and Quality of Management and the Other Agents.**—As we have already said, there is a certain amount of business management in all of the aspects of the production of goods, whether in one field or in another, and whether upon a small or upon a large scale. That the productiveness of this agent depends upon its quantity as well as its quality has been assumed. Let us, however, make some further statements concerning this point. It is very easily conceivable that in a certain group of production there can be too much of management, that is as compared with the quantities of the other agents employed in this group. This conception is in the main very ideal. In actual business there is most often too little of this agent. An increase in the quantity and quality of

business management in most groups of work is, therefore, greatly to be desired. It means greater and greater productive capacity and consequently a greater and greater production of wealth.

As yet in our wonderful economic development we have not upon the whole produced commodities of this class in excessive supplies. We have, to be sure, produced an enormous quantity of business management of a high grade, but we have need of a still greater quantity of it. We have increased our supplies of labor, land, and capital, at almost a marvelous ratio, and these ever increasing supplies of the other agents of production have created an ever increasing demand for managing ability. The fact that many of our great industrial corporations are paying an individual for managing ability a salary ranging from \$50,000 to \$100,000 per year, is unmistakable evidence that business management, at least of the highest type, does not exist in too great quantities. This fact is also partial evidence that management is a very extraordinary producing agent, for in many instances these individual managers produce much more than they receive in salaries.

The productiveness of management also depends to a great extent upon the amount of the other agents employed with it. Let us illustrate



this point. The manager of a farm of one hundred acres, upon which are worked one hundred agricultural laborers and upon which is employed \$20,000 of capital, cannot produce for himself a ten-thousand-dollar salary, it makes no difference how extraordinary may be his managing ability. If, on the other hand, he assumes the management of a much greater number of acres, of a much greater quantity of labor and capital, he may produce goods or utilities valued at twice the above-mentioned salary. The amount produced in either case will depend upon the quantity and quality of his managing ability, his productive capacity, and upon the quantity and quality of the other agents employed.

**Business Management, How Productive: (b) Form of Management.** — The forms of business management are varied, but for the most part they are of the following types: individual, private partnership, private corporation or company, and joint stock corporation. The individual may manage his own enterprise, of whatever kind, by himself. He alone assumes all the responsibility, bears all the losses, adjusts the forces of production and consumption, and receives the pay for his managing ability, as well as the profits, if there are any. This individual may unite with another individual, in a partner-

ship, to use the legal term, and two persons instead of one now supply the managing talent required. Several persons may combine their managing ability, as well as their capital, into a private company. The business may be carried on by all the members of the company or by certain members chosen for this purpose by the whole body.

The most important type of the organization of business management is, however, the joint stock corporation. It is this form which has played so great and distinguished a part in our economic life and thought within the last few years. This form of business organization is much more permanent than the others; it is, in fact, a practically permanent institution. The individual and partnership managers die, and their business enterprise comes to an end. This is also more or less a characteristic of the private corporation. But the joint stock corporation goes on, though managers after managers disappear, and though certain individual members of the corporation pass away. Not only is this form of business management, as a rule, much more permanent, but it is also much larger. It possesses and commands the use of much more capital and business talent than can any of the other forms of business management. Its capital is not confined to that of a few

persons and the amount which they can for a time borrow. It is made up of the capital of many managers and of the public to a greater or less extent, for any individual may purchase the bonds and stocks of the corporation. Under such a form of management the capital is supplied by many, at times by many thousands of individuals, and the responsibilities of the business are assumed by all the stockholders. But the stockholders, being too numerous to carry on the business, must select certain ones of their number as managers — called directors, president, secretary, treasurer, and committees.

**Form of Business Management : (1) Small or Large Scale Production.** — The productive power of business management depends not only upon its quantity, quality, and the form of its organization, but also upon the scale of production. And the scale of a business enterprise is largely the product of management, not of labor, land, and capital; it is primarily management which determines the scale of production, whether small or large. To be sure, the amount of capital and the other agents have much to do with this scale, but the most important factor in it is management. For the most part production has been in the past upon a small scale, but within the last quarter of a century the tendency to large scale production has been

very marked. The chief reason of this tendency, to production on a larger and still larger scale, is the fact that such production brings increasing returns not only to the management but also to the other agents employed. It means cheaper and cheaper production, and production at a lower cost is desired by consumers and producers alike, for it increases, or at least tends to increase, the welfare of the one and the profits of the other.

**Increasing Returns of Production on a Large Scale.** — The savings or economies in the production of goods on a large scale are many and varied. We can here mention and discuss in merest outline only a few of the more important ones. The large organization or plant, to use a business term, can make a distinct saving in its raw material. It can make use of all the by-products, which a small plant cannot use to advantage and sets aside as waste. The large plant can also employ the best and most specialized machines, and the best machines produce at the lowest cost. It can afford to make many and costly experiments with its machines, displacing many older ones, in order to find out the better and cheaper ones. The small plant cannot afford to do these things. The larger plant may likewise make use of the most skilled labor; it can afford to employ

highly specialized and skilled laborers who work exclusively along their own special lines. The small plant must make use of one laborer for several lines of work, and consequently cannot use his labor to the point of greatest advantage or in the most economical way.

While these savings or economies are great, they are by no means all of the advantages which the large producer has over the small one. The large producer buys in greater quantities, and, therefore, secures his raw material at a lower price. He also buys his transportation and drayage services at a lower cost. In selling his finished goods to the consumer the large producer has another advantage, a saving both to himself and the consumer: he can always supply the demand, and though he may sell in large quantities, he can sell at the highest price. The small producer cannot always supply the demand, and in consequence he cannot sell his goods at the highest price. Production, on a large scale, therefore, tends to bring increasing returns, while that on a small scale tends, all things being equal, to decreasing returns.

All of these economies of large scale production of which we have just spoken depend, however, upon the success of the business management, and in this particular the smaller organization has a distinct advantage over the

larger one. The management of the large corporation is most often divided and subdivided, and of necessity so. In this management, divided as it is and must be, there is much less of unity of action, there is much less of personal responsibility in the individual managers and submanagers, and there is much chance for friction and dishonesty. In short, the very size and complexity of its management may at times become a great element of weakness and loss instead of one of strength and gain. The gigantic business corporation of to-day may become subject to decreasing returns, as much so as the small producer. Its very magnitude may become its greatest disadvantage and danger.

**Form of Business Management: (2) Monopoly Production.**—The form of business management, whether upon a large or a small scale, may be monopolistic or competitive, and both types are as old as management as a producing agent, as old as civilized man. The idea of a monopolistic corporation is not, therefore, necessarily based upon its size, as is so thoroughly believed by the masses, but upon the unity of its management. While monopoly production is oftentimes large scale production, still unity of control in the production of certain goods, and this control being made complete and

exclusive as far as the production of the goods is concerned, is the fundamental idea underlying all monopoly management.

But a complete and exclusive control by the producer of certain goods over the consumer of them is practically impossible. The control of their production may become exclusive, though this does not often happen, but the control of the producer over the consumer really never becomes complete and exclusive. The consumer is never a slave to the producer of any one kind of articles of consumption; he has freedom not only to choose the quantities of the articles which he consumes, but also to choose the kind of goods with which to satiate his wants. We can more easily understand this point by examining an illustration. An electric company in a certain city may for the time have complete control of the manufacture and sale of electricity in this city, but this monopoly producer can never compel the people to buy its goods or services. The consumer may use gas or oil for lighting purposes, may use the muscular strength of animals or steam for motive power, and he will most certainly do this if the electric company charges very excessive prices for its goods. Suppose the electric corporation enlarges itself so as to include under its unified management the gas company and the steam

power companies. Its control is now greater and more complete, but it is not yet absolute, even over the production of its goods, to say nothing of the freedom which the consumer still has in the choice of the kind and quantity of goods for his consumption. If the consumer has no other goods from which to choose, and he is seldom forced into such a situation, he will consume less of these articles, in case the monopoly producer by virtue of its more or less complete control over their production charges him a very high price for them. Throughout the whole realm of production, while there is much of the practical monopoly type, there is little, if indeed any, of the absolute monopoly type.

**Kinds of Practical Monopoly Producers.**—As we have just said, the monopolistic form of business management is very old, though in the popular mind it is a distinctly modern institution. Almost throughout the history of governments, we find the monopoly producer who may be called the *legal monopolist*, and this form of business management is in fact created by the state. By virtue of a charter or other document issued by the government, certain persons are given the complete and exclusive control of the production and sale of certain articles of consumption. At one time monopolies of this type have been very numerous



and powerful. At another time they have played only a very insignificant part in production. To-day, though we have many of this class of monopolistic producers, the government at Washington issuing many monopoly-conferring documents bearing the name of patents and copyrights, they do not contribute a great part to our production of wealth.

But we have another class of monopolies, in the creation of which the state takes no direct part; we have a monopoly formed by nature and man which may be properly called the *naturalistic monopoly*. Nature has so highly localized a few of her valuable mineral products, as for instance the anthracite coal of the United States, which is found largely in a few adjoining counties of Pennsylvania, that man by means of his managing talent and capital can more or less monopolize the production and sale of them. As yet, however, this product is by no means monopolized; the largest coal producer does not control more than 50 per cent of the American output of hard coal. Railway transportation, by the inherent nature of its business and the routes it makes use of, may also be somewhat unified in its control, though it is the managing ability and the capital of men, rather than nature, which are the great and vital forces in its unification.

We have also a third class of the monopoly producer, and we may name this the *capitalistic* one. To be sure, capital and management play great and leading parts in all these classes,—in the legal, naturalistic, and capitalistic ones,—but in the last type of monopoly they constitute the most fundamental factors. It is this class which has played so important and distinguished a part in our great industrial development of the last quarter of a century. It is this class which bears the popular and odious name of trusts. It is to this type that the famous and powerful Standard Oil and the United States Steel corporations belong. Brains and capital, working together under the all-pervading modern spirit of combination and concentration, have been the creators of this form of production, and they are likewise the very arteries and blood of all the other large forms of production, whether monopolistic or competitive.

In neither the naturalistic or the capitalistic monopoly is the control of the producer exclusive. The control of the most powerful ones is only from 65 per cent to 95 per cent complete, while that in the less unified ones is only from 50 per cent to 65 per cent complete. Such a control as this, however, gives the manager great influence in the production and sale of all the goods of his special kind and quality,—in fact

gives him almost a practical monopoly, so far as he and the other producers have power over these goods.

**Form of Business Management: (3) Competitive Production.** — So strong has been the recent tendency, in our own country at least, to the formation of the monopoly organization, and so powerful have some of these organizations become, not only in their influence over other producers of the same kind and grade of goods and the consumers of these goods, but also in social and political life, that public opinion has been aroused against them to an exceedingly high pitch. So great has become the monopoly principle of production that, in the minds of many people, the principle of competition has become endangered. And to this principle of competition have been assigned very wonderful properties. It is popularly supposed to possess the magic power to stimulate to greater activity and effort, as well as to cure all the wrongs in the whole realm of the production of wealth.

Will this principle, which to the minds of many seems so marvelous, and which upon the whole promotes the welfare of man, be annihilated? Will the monopoly idea alone control in production? What the great future may bring forth we dare not exactly predict. As yet among the producers, competition, either of the

active or potential<sup>1</sup> kind, is still busily at work. In the year 1900, there were in the United States of the monopoly form of producer called trusts less than two hundred, and we have had this principle at work more vigorously and to a greater extent than has any other country. Their total annual output was then valued at about \$1,660,000,000, while the total annual output of all the American factories was worth about \$13,000,000,000. This means that in that year the competitive manufacturer produced goods valued at about eight times as much as those produced by the monopoly manufacturer. Since 1900 there has been an enormous increase in the monopoly form of production, but still the monopolistic producer works only along a comparatively few lines. He produces transportation services. He also produces certain staple articles, such as steel and iron, sugar, oil, tobacco, gas, and electricity. In agriculture and commerce he has as yet played an insignificant part. We may with good reason expect more and more of the monopoly idea of production, for it means as a rule cheaper and cheaper production, but we may likewise expect that the men of the future will produce also along

<sup>1</sup> We mean by potential competition, that which may at any time organize, embody itself into some form of production, and become active, though at the present it exists only in the minds of a few business men.

the lines and according to the principle of competition.

**Form of Business Management: (4) Socialistic and Coöperative Production.**—The productive power of business management has been very greatly increased by the principle and practice of combination; combination of managing ability has brought wonderful strength and efficiency. And the rewards of such forms of management have come to be enormously great. At times these rewards represent in fair measure the productivity of management. At other times the manager by virtue of his high position in production takes for himself too large a part of each article produced; he pays the other agents—labor, land, and capital—less than they earn or produce.

This tendency to greater and greater pay to business management, whether it be fair or not, has brought forth much discussion of the methods of management and much feeling against these methods. So strong has this feeling at times become that we have formulated a science of economic life, called socialism, which demands an almost complete and fundamental reorganization of society and its business forms and methods. The points of chief attack by the advocates of the new science are land, capital, and management. It is by them contended

that the first two of these instruments of production should belong entirely to the state, that the laborer should supply his own management, and that he should have the use of land and capital, in quantities as great as he desires, at a price no larger than that which is necessary to replace the wear and tear of them. This socialistic system is, however, upon the whole so visionary and its foundation so unreal, that we shall not attempt to discuss at any length its means and methods of production. That some of its demands have been granted, no one can deny. Governmental ownership and management of certain fundamental and universal industries, as the postal, telegraph, and railway systems, and governmental regulation and control of many private industries,—all this is abundant proof that our present system of production has incorporated into itself not a few of the ideas of the socialistic system of production.

There are other reformers who demand some changes in our present system of production, but by no means such radical ones as those for which the socialists are calling. They believe in the fairness and the soundness of the private ownership of land and capital. They fully recognize that land, capital, and business management, as well as labor, are producing agents. They, however, believe that common labor, as

well as managing labor, should enjoy the profits of production.

According to their plan, the workers together with the employers are to manage the business, to assume all of the risks and enjoy all of the products; all are to bear their parts of the losses and receive their parts of the profits. If the coöperative plan of production, as it is called, can ever be successfully carried out, the problems of the distribution of wealth will become much easier, and wealth will be distributed with far greater fairness to all the parties involved. That such a condition is to be greatly desired, we shall find abundant evidence under the section treating of the distribution of wealth. Whether the coöperative plan of production can accomplish such an end is, however, a highly debatable question. The principle of employer and employee working together, all assuming the burdens of management and sharing its products, while in some respects attractive in theory, has so far worked with only very slight success. Coöperative management has as yet been seriously lacking in unity; it has been attended by much discord and failure. It, like the extreme democratic government, in which one man is equal to another, soon becomes a management of a chaotic type. We must have more and more of the spirit of conciliation, of steadiness and honesty

of work, and of obedience to those who by merit are our superiors, before such a scheme of production, on a large scale at least, can ever be successfully put into operation.

### QUESTIONS

(1) Is there an equal need of business management in farming, manufacturing, mining, railroading, merchandising, and banking?

(2) Why is one business manager paid only \$1000 a year, while another business manager receives \$75,000 a year?

(3) Suppose you are a cotton manufacturer. Would you produce cotton cloth upon a small or upon a large scale?

(4) Suppose you are the manager of a railway corporation. Would you produce railway service upon a small or upon a large scale?

(5) Would you prefer to manufacture goods under competitive conditions or monopoly conditions?

(6) Do large corporations add to the welfare of your community?



## C. ASPECTS OR GROUPS OF PRODUCTION

### CHAPTER VI

#### AGRICULTURE AND MINING — PRODUCERS OF WEALTH

**Aspects or Groups of the Production of Wealth.**  
— We have now completed our analysis of the agents and forces which are at work in the production of wealth. We have found that labor, land, capital, and business management are the chief factors or agents in all the aspects or groups of production. It is now necessary to take these aspects into our consideration, and to make a careful analysis of them. The production of wealth divides itself into the following general groups, which are more or less distinct: agriculture and mining, manufacture, transportation, and commerce.

**Agriculture and Mining the First Aspect of Production.** — The history of mankind is full of testimony to the effect that agriculture and mining are the most universal phases of economic activity and effort. In the most primitive stages of life above that of the savage and bar-

barian, the tillage of the soil and the digging of minerals deposited beneath its surface are the most universal of all the occupations. In the most advanced industrial stage that the world has yet developed, these same aspects of production occupy the energies and thoughts of the larger number of men.

Agriculture is still to-day, as it has always been in our own country, the most dominant aspect of business life. The culture of corn, hay, cotton, and wheat, to say nothing of the enormous number of the other agricultural products, is the absorbing occupation of millions of people; and it is the one group of production in which vast quantities of land, capital, and business management are employed. From the American fields of agriculture come the food supplies of more than seventy-five million Americans, and of millions of the inhabitants of other countries. From the Southern cotton fields alone come more than 70 per cent of all the raw cotton fiber of the world.

The mining industry of the United States, while not so universal and absorbing as that of agriculture, is one of our greatest fields of economic activity and effort. The extraction from the earth of coal, iron, copper, gold, petroleum, silver, and thousands of other mineral products employs the productive power of enormous

quantities of all the agents of production and places upon the markets of the world values amounting annually to hundreds of millions of dollars.

**Vital Importance of this Aspect or Group of Production.** — Production in all of its higher aspects is absolutely dependent upon this group — that of agriculture and mining. From this group of production and its subgroups come all the raw materials out of which are created the manifold forms and qualities of our wealth. From the fields of agriculture come all of the numerous varieties of our foods; and they range from the coarsest vegetables, breads, and meats to the most delicate morsel. Our articles of clothing, of whatsoever form and degree of fineness, come from the raw materials which are supplied by the farms, largely by the cotton fields and sheep pastures. Our houses, tools, and machines, of any form and quality, and our fuel, in the shape of wood and coal, — all these forms of wealth come from the forests and the mines.

**The Forms of Wealth created by Agriculture and Mining: Elementary Utilities.** — As we have already suggested, the forms of wealth or utilities which are created in this group of production are elementary. The products of the agriculturist and the miner are, therefore, *elementary utilities*. This group of production

brings forth the supply of the raw material of the world ; and this raw material, though for the most part of the simplest and most elementary forms, is the foundation upon which all the other forms of wealth are constructed. Let us consider some illustrations. The piece of beautiful Swiss embroidery, that sells on the market for \$20, is made of a pound of North Carolina cotton which sells for 12 cents. The still more beautiful lace, that sells for more than \$100, is made of a pound of South Carolina cotton which sells for 15 cents. The most delicate dish of the fastidious millionaire is made upon the foundation of Dakota flour, which sells at 4 cents a pound. The magnificent locomotive, which carries a train of cars from New York City to Chicago in seventeen hours, is constructed out of the simple iron taken from the Pennsylvania mines.

**Agriculture and Mining, How Productive: Method and Organization.**— That method and organization play a vitally important part in the productive power of each agent of production, we have already agreed. That they should play a great part in the products of any group of production, needs no special argument. The farmer, who tills his soil by means of his own hands and the crudest tools, reaps but a small product. But the farmer who employs upon

his lands, in addition to his own labor, a sufficient quantity of all the other agents,—a sufficient amount of capital and business management,—reaps a much greater product for himself and the other agents. Labor and capital employed upon the cultivation of agricultural products, just as much as labor and capital used in any other group or subgroup of production, create products largely in proportion to the method of their employment. And this method is determined by the farmer as a business manager, rather than by the farmer as a laborer. Business management is, therefore, a vitally important agent in agriculture. It is this agent which determines the amount of capital used upon the soil in the shape of machinery and fertilizers, which determines the kind of crop planted, and which determines the number and efficiency of the laborers employed. On every hand we see farmers who, though they toil with all of their physical energies, reap exceedingly small harvests. They do not use a sufficient amount of skill, intelligence, and judgment, and these qualities are just as necessary in the group of production called agriculture as they are in any other group.

Method and organization are just as vitally important in mining as they are in agriculture. The miner who employs nothing but his mus-

cular strength and energy and a crude pick brings forth from the depths of the earth only a small product. But the miner who makes use of capital in the shape of the most efficient machinery, who makes use of managing intelligence and judgment, as well as muscular strength and energy, produces great and valuable quantities of mineral products.

### QUESTIONS

- (1) Why is agriculture the first and most important aspect of production on the part of almost every people?
- (2) Is it possible for the agriculturist to become a millionaire?
- (3) A man has two adjoining cotton plantations of exactly the same size. Upon one is grown one hundred bales of cotton; upon the other fifty bales. Why the difference?
- (4) Are the minerals of our country of great importance and value? Could we do without them?

## CHAPTER VII

### MANUFACTURE — A PRODUCER OF WEALTH

**Vital Importance of Manufacture.** — The vast quantities of raw material which are supplied by the agriculturist and miner must be transformed into higher form utilities before they can be of greatest service and pleasure to man. The consumer does not eat wheat in its raw or elementary form. It must be transformed by the miller into flour, and the flour must be converted into bread. Raw cotton fiber cannot satiate man's want for clothing. It must be carded, spun, and woven; it must be made into some form of cloth before man wears it upon his body. From the cotton fields it must go to the gin, where the fiber is separated from the seed. From the gin it must go to the carding room, where the fiber is straightened. From the carding room it must go to the spinning machine, where this straightened fiber is stretched and twisted into thread or yarns. From the spinning machine it must go to the loom, where it is woven into cloth. From the weaving room it must go to the bleaching and

dyeing rooms, where it receives the desired color. In all of these stages is the manufacturer; in all of these stages is the man who by means of all of the agents of production transforms, time and again, the elementary forms of cotton until they become the thousands of varieties of the higher forms of cotton fabric. This life history of the cotton fabric is substantially the life history of every other kind of finished goods.

**The Forms of Wealth created by Manufacture:**  
**Higher Form Utilities.** — As we have already said, production is a process of creating forms of things, not material things themselves. As production creates utilities, rather than material things, so consumption makes use of these utilities; and neither process creates or destroys matter. The agriculturist and miner produce forms of utilities or wealth which we call *elementary*. The manufacturer changes these elementary forms into higher forms; he creates the *higher form utilities*. Let us illustrate this point. The farmer produces forms of wealth called raw cotton, and these forms are now selling on the market at 11 cents a pound. The manufacturer, by changing one pound of this raw material or elementary form into its highest forms or utilities, produces a product which sells for hundreds of dollars. The farmer in



producing the raw cotton fiber creates value in it. The manufacturer in transforming this raw material into higher forms creates more and more value in it; and the value he creates in it depends upon the form of his products.

**Manufacture, How Productive: Method and Organization.** — We have seen that method and organization are great factors in the production of wealth, whether of one group or another. They play vital parts in all the aspects of human life, in the political, intellectual, religious, as well as in the economic aspect; the implements of work and the method of their employment are fundamentally important in all the aspects of human life and activity. The manufacturer, or he who changes the elementary forms of wealth into their higher forms, is productive largely in proportion to the method according to which he works. In the transformation of goods from lower forms into higher forms, he employs labor, land, capital, and business management, and the product of each of these agents depends upon its inherent productive power, upon its supply as compared with the demand for it, and upon the method of its employment. The manufacturer, who makes use of unskilled and inefficient labor and business management, and uses antiquated and inefficient tools and machines, produces a small

amount, and he in consequence produces his goods at a high cost. But the manufacturer, who makes use of the greatest possible skill and efficiency in his labor, machinery, and business management, produces a great product, and at a lower cost per unit of goods.

Whether the organization of manufacture shall be large or small depends to a considerable degree upon the special line of production. The advantages and disadvantages of production upon a large scale as compared with those of production upon a small scale, we have already considered. These advantages and disadvantages we have examined under the head of business management as a producing agent. Under that head we have stated that production upon a large scale is as yet confined very largely to only two general groups or aspects of production—to manufacture and transportation. As yet agriculture and commerce remain groups of production in which the organization of business management is for the most part very small. And in the group which we call manufacture the organization is by no means universally large. In fact large scale manufacture exists only in a few special fields—in the production of some of the very necessary and staple goods, such as iron, steel, oil, gas, sugar, etc. In many of the fields of

manufacture the organization of business management is still small. That a more intelligent method would greatly aid many of these small manufactures, needs no discussion. That the principle of combination and concentration, if intelligently applied, would also greatly add to their productivity seems to us to be equally apparent.

### QUESTIONS

(1) Abolish all the manufactures of the United States, compel all of the American people to become producers of raw material. How would our life be affected?

(2) The Southern states grow annually from ten to thirteen million bales of raw cotton. Suppose that all of this vast quantity of raw material could be manufactured in the Southern states. What effect would this have upon Southern life?

(3) What effect do skilled laborers and efficient machines have upon the manufacture of cotton, iron, steel, gas?

(4) What effect would combination and concentration have upon the manufacture of cotton in the South? in New England?

## CHAPTER VIII

### TRANSPORTATION — A PRODUCER OF WEALTH

#### **Fundamental Importance of Transportation. —**

As we have said, economic life is largely social, both in the aspect of the consumption of wealth and that of its production. The production of wealth is especially a social process. No one producer can live unto himself alone. The Robinson Crusoe producer, or consumer, has never existed in actual life; his existence is only imaginary. Man in the business realm possesses, to be sure, his own individuality, but this individuality is surrounded by other individualities. These economic beings, as consumers, have their many and varied wants, and they likewise have their various abilities as producers, whether they work upon nature by means of their own energy alone, or by means of capital, as well as their own energy.

Some few consumers may produce the kind of utilities which their simple wants demand and in sufficient quantities to satiate these wants, but in an economic society which is at all advanced and complex it is absolutely impossible

for any individual consumer to produce all, or even many, of the goods for which his wants call. He should certainly produce as much wealth in some form or other as he consumes; otherwise he robs the society in which he lives. But that he should produce the exact form of the goods he consumes is not at all necessary, and this would for the most part be a wasteful use of his energy and the other agents of production which he employs. Under the modern system of producing wealth, and also in the more advanced systems of the ancient or mediæval peoples, one man produces as much of a special form of wealth as his energy and the other agents which he possesses can produce; and another man, situated in a different location and amid different natural forces and social surroundings, produces as much of another goods as his energy and the other agents of which he makes use can produce. It may be that the special products of each man are in part consumed to satiate his own wants. But what becomes of the surplus? The other man has wants for it and will consume it, if he can obtain possession of it. It may be, however, that both of the individual producers create goods which they do not need in the satiation of their own wants. What becomes of their products? Other men, the producers of other goods, have wants for these

and will consume them, if they can obtain them. The transportation of these various surplus products from one producer to another, from producer to consumer, is, therefore, a most vitally important problem.

**Relation of Transportation to the Production of Wealth : Place Utilities.** — Transportation is not only a fundamentally important element in our economic or business life, but it is also a producer of wealth. And as a producer, a transportation system makes use of all the agents of production of which we have spoken. It has need for labor, land, capital, and business management, and each of these agents produces a part of every transportation service. By way of illustration, let us consider the railway. The service of the Southern or the Pennsylvania railway, in transporting an individual man or a pound of cotton cloth from one place to another place one mile distant, is in part due to the labor of the company, in part due to its land, its capital, and its business management.

Let us put these four agents to work upon an acre of cotton lands, in a cotton factory, and in a railway system. In the culture of cotton these agents produce utilities which we call *elementary* in their *forms*. In the factory some of these simple and elementary forms are made into *higher forms*, into all kinds of cotton

fabrics. These elementary forms must be transported from the farm to the factory, and the finished fabrics must be taken from the factory to the consumer, or to the merchant, who acts as an agent for the consumer. In either case, transportation has not only rendered a service, but it has also produced in the goods certain utilities ; it has added utilities both to the raw cotton fiber and the finished cotton fabric. It has carried these goods from a place in which the demand for them is small to a place in which the demand for them is great. These utilities, which the transportation agent creates, we call *place utilities*. And in our economic realm goods are not completely and finally produced until they are placed at the door of the consumer of them.

**Relation of Transportation to Producer and Consumer; Satiation of Old Wants and Creation of New Wants.**—Transportation not only adds values to certain goods,—creates place utilities in these goods,—but it also creates more and more wants for the goods. It is just as mighty a force to the consumer as it is to the producer. It is in itself, as we have already said, a producer of goods or utilities. And the producer is both the master and the servant of the consumer. Let us consider an illustration. The breakfast table of the consumer may now

be supplied with fruits grown in every quarter of the globe and during various seasons of the year. Until very recent times the daily want for fruits on the part of the consumer could not possibly be satiated; the consumer himself could produce only a few varieties of fruits, and that too only for a very short season. A great and complicated transportation system must be worked out and put into successful operation before the consumer in New York City can daily enjoy the products of Florida and Maine, of Europe and Africa, of South America, and all the other parts of the globe. Transportation is, therefore, the greatest mechanism of bringing producer and consumer together, and is consequently one of the greatest means of economic progress and civilization. It has always been and will continue to be among the world's most universal and powerful means of producing wealth and welfare.

**Transportation, How Productive: (a) Instruments of.** — That the productive power of transportation depends upon its means or instruments of transportation, as well as upon their extent and equipment, requires no argument. But what are these means? Sleds, carts, and wagons, drawn by animal power, have always been instruments of transportation. And boats and ships, propelled by man's muscular power or by



the mighty forces of wind and steam, are means of transportation as old as man himself, and they are still most important instruments. It is the modern steam or sail ship, which is the instrument whereby all goods are transported across large bodies of water—lakes, seas, and oceans. It is also the instrument of transportation along rivers and canals. The most important and extensive modern instrument of transportation is, however, the railway, either of the steam or the electric type. While many of the other instruments of transportation are very old, this means is distinctly a modern one; its whole life covers less than a century. Though the most modern of all the instruments of transportation, its development has been the most marvelous and its productive power the greatest. The steam railway system of our own country, though it had its beginnings in 1828, had by 1900 grown to a mileage of about 200,000, and it was possessed of all the equipment necessary for such a mileage.

**The Railway System of the United States a Fundamental Instrument in all the Aspects of our Life.**—This railway system has not only had a marvelous growth within itself, but it has also been one of the greatest of all our means of production; it has been one of the greatest factors in our truly wonderful economic develop-

ment. It has aided and stimulated all the aspects of our life. In fact, it has revolutionized it. It has bound together into one economic community a vast and varied territory. It has made it possible for the farmer to explore new acres, the miner to discover new beds of minerals, and the manufacturer to produce new supplies. It has been the magic power in causing towns and cities to spring into existence and in making many individuals prosperous and rich, while the lack of its facilities has caused others to remain poor. The railway system of our country has not only accomplished this much, but it has also concentrated and unified the intellectual, political, and social aspects of our life. It has caused the Atlantic section to be joined with the great valley of the Mississippi, and it has bound these two vast regions to the far West. It has had much to do in making all of this vast and highly diversified area into one government and one people.

**Transportation, How Productive: (b) Form of Organization and Management.**—The form of business management in transportation,—in the production of place utilities,—as in the other groups of production, is of vital importance. The very organization of the transportation facilities is in itself a great producing

agent, and this is especially characteristic of long distance overland transportation. This fact has been proven time and again by our own experiences. In the early history of the American railways, in fact during the first fifty years of their existence, we had no less than hundreds and thousands of different systems. Each small road was independently managed; it had its own schedules, rules, and rates; and the trains of one system made no connections with those of another system. The time required for the transportation of passengers and freight from Boston to Washington, for instance, was necessarily very long, and the cost of this transportation, including the cost of many transfers from one system to another, was in consequence very great. Such a system was beyond any doubt most inefficient. It was, to be sure, better than no railway transportation at all, but the very form of its business management was a great hindrance to its productive power. There was no unity of management. There was also little thought on the part of the management to serve the larger interests of the producer and the consumer, and both of these were demanding better and greater transportation facilities.

The time, however, came when the railway managers must yield to such demands, must

make attempt to supply such wants, and they themselves began to recognize the great productive power of a new and larger form of business management. Now we have the principle of combination and concentration vigorously at work in the railway world. Many small independent roads are now combined into one large system. And this process of combination has gone on and on, until at present we have in the entire United States but six or seven different systems, and these systems have more or less of an agreement as to schedules, rates, and connections. To-day we can cross our vast continent without a change of cars and within the remarkably short space of three days. More than this, the whole system of inland transportation has within a short period increased its efficiency a thousand fold. While this increase of productivity has brought great returns to the transportation managers, it has also brought great returns to the consumers of transportation services. The saving in time is by no means the only economy, for rates of transportation have greatly decreased. It now costs less to go from New York to San Francisco than it did forty years ago to go from New York to Chicago.

QUESTIONS

- (1) How much is the consumer of beef influenced and benefited by transportation services?
- (2) How much is the producer of sugar influenced and benefited by transportation services?
- (3) Do railways produce wealth?
- (4) Do railways produce welfare?
- (5) Would you prefer that we have many independent and disconnecting railroads or one great system of railroads?
- (6) There are at present in the United States six or eight great systems of railways. Do you think that these great combinations are for our wealth and welfare?

## CHAPTER IX

### EXCHANGE: COMMERCE — A PRODUCER OF WEALTH

**Vital Importance of Commerce.** — We have just seen what a great and vital part transportation plays in the production of wealth. But along with transportation, and in vitally close connection with it, there is another very important instrument or means of producing wealth; and this we call commerce or exchange. This group of production is also fundamentally and vitally connected with those of agriculture and manufacture. In consequence of the difference in individual capacity and in natural and social surroundings, different economic persons and localities can produce certain products much more efficiently and cheaply than they can others. If these different products can with facility be exchanged, both the consumer and the producer of them will be very greatly benefited. Without such exchange of goods between persons and communities economic life remains primitive and undeveloped. In the past there have been individuals, and there are still not a few, who produce practically every article

which they consume. They make few exchanges of products; they are economically self-sufficient and independent. But such people, however, have no economic, social, or intellectual progress. They are "Jacks-at-all-trades," and become proficient and skilled in none. They do not specialize in their activity, and consequently fail to acquire that efficient skill which comes alone from specialization.

**Commerce in Relation to Production : Time Utilities.** —The modern tendency everywhere is, however, toward a greater and greater specialization in the production of products and a greater and more extensive exchange of products. The individual possesses special aptitudes and skill, as well as special powers of nature with which to work. He has great varieties of creative power, of soil, climate, and mineral deposits. One man can produce certain goods at the minimum cost, while another can produce the same goods at the maximum cost. The ideal is unquestionably for each producer to make that form of goods which he can make best and cheapest, and for each producer to exchange with the other. And as man becomes more and more civilized and far-seeing, this tendency becomes stronger and stronger. But for such an ideal to be realized, even in small part, it is necessary to have both transportation and commercial facili-

ties. The transportation agent may carry products from place to place, thereby creating in them place utilities, but this instrument alone is not sufficient. There must also be the exchange agent, the merchant as he is called in popular speech. This agent must act as an intermediary between producer and consumer, and must keep the goods in storage until the consumer's demands for them are strongest. This agent creates utilities in the products, and these utilities we call *time utilities*.

**Commerce in Relation to Producer and Consumer; brings them together and creates Time Utilities.** — Commerce is, therefore, a means of bringing the producer and the consumer together. But transportation is another means of accomplishing the same result. In fact, these two aspects, while separated in our discussion, and to an extent in actual business, are very closely and vitally allied with each other. Transportation without a system of exchange would be impossible, and exchange would be equally impossible without facilities for transportation. It is the modern commercial agent who, by means of the transportation systems, goes to the ends of the earth in search of products which are demanded by the consumer; he brings producer and consumer closer and closer together; he causes the economic



world to be combined and concentrated into one community, so to speak; he plays the guiding and leading part in the exchange of goods, whether upon small and local markets, or upon national or international markets; and he delivers goods of all conceivable kinds and qualities at the very door of the consumer and receives from him the price. This agent is not only an intermediary of producer and consumer, but he is also himself a producer of utilities in goods. He produces in every product a part which we may call *time utilities*.

By way of illustration, let us assume that one pound of raw cotton is grown by the North Carolina farmer at a cost of seven cents,—that is, the farmer, by means of his labor, land, capital, and management, produces in this cotton fiber elementary utilities which are valued at seven cents. The transportation and exchange agents add utilities to this pound of raw material, which are valued, let us say, at three cents. The manufacturer then pays for the raw fiber, when delivered to him, ten cents. By changing its form, time and again, he creates in this raw material utilities which are valued at twenty-five cents, and he then sells to the merchant for thirty-five cents the total utilities which the cloth contains. The transportation and commercial agents create more utilities in the cloth, giving to it more

place and time utilities, which are valued at fifteen cents, and they sell its total utilities to the consumer for fifty cents. The farmer, the manufacturer, the transportation and the commercial agents—all these factors are the producers of the cotton fabric which the consumer buys.

**Commerce and its Mechanism ; Systems of Transportation, Weights, Measures, and Money.**

— As we have already said, the producer of commercial utilities is an agent of the producers of all the other utilities, as well as of the consumers of all utilities. This agent, by means of transportation facilities, causes the products which the consumer wants to be moved from place to place, as well as keeps them in his own storehouses until the consumer needs and demands them for his immediate consumption. In a large sense, therefore, the transportation machinery of a country is an important part of its commercial mechanism. There is great need, however, for much more machinery of exchange. There must by all means be standards of weights and measures—common standards of measurement for all the products which are exchanged between the producer and the consumer. And in a community, which is at all complex and extensive in its economic wants, activity, and effort, its manifold products

cannot always with convenience be exchanged with one another. There must also be a common standard of the values of the products which are exchanged; there must be a unified system of money. In this extensive exchange of products there are many abuses and evils, and for the correction of these we must have a vast body of economic legislation. The laws defining and regulating the weights, measures, and money of a people are of necessity exceedingly numerous and important.

**Commerce, Domestic and Foreign.** — The exchange of products may be confined to a single nation, and this commerce we may call domestic. In a great and vast country like our own the domestic exchange is perfectly enormous. Our home or domestic exchange of products amounts to the gigantic sum of about \$25,000,000,000<sup>1</sup> a year. Our commerce with the peoples of other nations, while very considerable, is as yet very small when compared with that of our own people; it is not more than one ninth as great in volume. In England, on the other hand, the foreign commerce is, perhaps, much more extensive and important than is the domestic. In either country commerce is a wonderfully great producing factor, and the rewards of its productive

<sup>1</sup> These figures are only approximately accurate.

powers are divided between the producers of the utilities and consumers of them.

In an economic sense there is, therefore, little difference between internal and foreign commerce. In a political sense there is, however, a distinction to be made, which is more or less important. In the exchange of products between citizen and citizen of the same government the ideal is that of the most perfect freedom. In the commerce between citizens of one nation and those of another, while freedom of exchange has in its favor the presumption of advantage, there are many interests, largely of a political nature, which must be taken into serious consideration before it can become the rule of practice. In the past there has been much hindrance to international or foreign exchange. While great freedom has prevailed in domestic trade, tariffs upon tariffs have hindered foreign exchange. An analysis of these hindrances is, therefore, of the most vital importance, but it cannot just here be made; later the reasons for tariffs will be examined.<sup>1</sup>

**Exchange in Appearance for Money; in Reality for Products.** — This exchange of goods, whether domestic or foreign, seems to be for money, but

<sup>1</sup> See the chapter which is devoted to the state as a producer of wealth.

in reality it is an exchange of products for other products. In 1901 the United States, for instance, apparently exported goods in excess of her imports to the enormous value of \$665,000,000. On the face of it, this great sum would seem to indicate that other nations paid to us in one year more than half a billion dollars of gold. The fact is, however, that we received from abroad that year only a very small amount of gold or other money. Of this enormous amount, there remained in Europe about \$100,000,000<sup>1</sup> to pay dividends to European holders of American stocks and bonds, and to pay interest on capital borrowed by us from abroad; about \$50,000,000 to pay freight charges to Europeans, largely Englishmen, for conveying goods to and from our ports; about \$75,000,000 to pay American tourists' expenses in Europe; almost \$100,000,000 for American investments in European bonds; \$75,000,000 for overstanding debts; a considerable amount to balance the sums sent home by European laborers working in the United States; and about \$225,000,000 remained in Europe in exchange for American bonds and stocks formerly held by Europeans and now returned to us to be sold at higher prices. When all these large amounts, and other smaller ones which we have

<sup>1</sup> These figures are largely estimates.

not mentioned, were taken from the total apparent excess, there was only a small balance in our favor to be paid in gold.

England, on the other hand, had during 1900 an excess of her imports of goods over her exports to the enormous amount of \$1,130,000,000. This apparent gigantic balance against her was not, however, paid in gold. She paid this vast sum by the earnings of her ships employed in the international trade of the world, by the earnings of her money loaned and her insurance sold abroad, by the earnings of London Exchange which still has great productive power, and finally by the profits accruing from her manufactured products sold to the consumers of the four corners of the globe.

**Commerce, How Productive: (a) Conditions in the Other Groups of Production.**— That the productive power of a commercial system is largely dependent upon the conditions of prosperity in all the other aspects of economic life, we have assumed. And that this assumption is a correct one follows from the very nature and function of commerce. The amount of exchange depends upon the amounts of goods produced and demanded. A great failure among the producers of the elementary or higher form utilities, as well as a great falling off in the demand for these utilities, has a profound

influence upon the commercial man. A failure of the cotton crop of the Southern states seriously affects, not only the Southern cotton farmer, but also the merchant and his ally, the transportation agent, throughout our own vast country, yes, even throughout the cotton-consuming world. Commerce, as well as transportation, is, therefore, profoundly influenced by economic conditions; and these conditions are in turn fundamentally and vitally influenced by the productive power of commerce and all of its mechanism.

**Commerce, How Productive : (b) Ability of the Commercial Agent and Form of his Management.—**

The success of commerce also depends greatly upon the individual capacity of its agent and the form of its management. The task of producing the maximum of place or time utilities, and of supplying most thoroughly and economically the transportation and exchange wants of man, is one of the greatest and most complicated in the whole economic realm. The individual who has the energy, judgment, foresight, and imagination to perform this task is upon the simple ground of merit to be ranked with the world's greatest personalities. And in the performance of this task many different forms of business management have been used. In the exchange of goods we have as yet comparatively

little of the principle of monopoly, and the scale of management is for the most part much smaller than is that of the manufacturer or the transportation agent. Many competitive organizations, of both small and large proportions, carry on our commerce.

**Commerce, How Productive : (c) Mechanism of Commerce.** — We have already considered the great advantages which an efficient transportation system can bring to the commercial agent. We have likewise seen that for the exchange of products there is a great demand for a uniform system of weights and measures. This demand for uniform weights and measures, according to which all the goods of the people of a nation are measured, has been readily and efficiently supplied by the government. And over these wants there has been little popular agitation and discussion. But over the mechanism called money and banking there has been a long series of agitations and battles, and these problems are not yet by any means solved. A discussion of this mechanism and its problems will be made in the two following chapters.

#### QUESTIONS

- (1) Are you as a consumer of flour influenced and benefited by the merchant?
- (2) Is the producer of wool influenced and benefited by the merchant?



(3) Do merchants exchange goods for money or for other goods?

(4) What does a uniform system of weights and measures have to do with trade or commerce?

(5) What benefit is there to commerce in a sound and efficient system of money?

## CHAPTER X

### EXCHANGE : MONEY A STANDARD OF VALUE— A PRODUCER OF WEALTH

**Importance of Money; its Chief Features.**— We have already seen that there is, in the exchange of products, great need of a common standard of value. Commerce, as well as all the other aspects of production, has a key, and this key is value. Value as an abstract idea is, however, of very little importance in the business world; it must be embodied in some concrete form, in some standard of measurement common to all, before it can unlock all the countless economic situations. It is the money of a nation that is this common standard of value, as well as the common medium of exchange. It is these two features of money—a standard of value and a medium of exchange—that give it a position of such fundamental and vital importance in all the aspects of economic life.

**A Standard of Value also a Medium of Exchange.**— As a standard of value, money is almost as important as the language of a people.

As language is the means of the expression of all its feelings and thoughts, so money is the common measure of all its economic forces; it measures as a yardstick all its economic motives. As a standard of value, money is likewise a producer of utilities. It greatly facilitates every aspect of production,—that of the farmer, miner, manufacturer, transportation agent, and especially that of the merchant. The feature of money as a standard of value can never be entirely separated, either in thought or in actual use, from that of money as a medium of exchange. That which is established by a people as its common standard of value serves also as one of the media of its exchanges. And money as a medium of exchange is almost as vitally important as money as a standard of value. It is the medium of the transmission of all the economic forces, very much as blood in the animal body is the medium of the transmission of vital or life-giving forces.

**The Properties of a Standard of Value.**—From the very nature and purpose of a standard of value, it follows that the commodity which is adopted as such a standard should possess (1) *a great degree of universality*; it should be widely used as an ordinary commodity of consumption. It should also possess (2) *a high*

*degree of exchangeability*, for, as we have said, the standard of value must also possess use as a medium of exchanges, use as currency to speak in commercial terms. The standard of value should likewise possess (3) *the property of being easily transported from place to place*. And there is need of still another property, that is perhaps more vitally important than that of any of these which we have just mentioned; the standard should be (4) *as stable in its value as possible*.

There can, however, be no absolutely perfect standard of value. No commodity whatsoever possesses all the properties required for such a standard, at least for a people whose economic life is ever changing, as that of most modern peoples is. Every goods or commodity which can be selected as a standard of value, whatever it may be, is variable in its value. Its variable-ness depends upon causes which affect itself, such as its supply and the demand for it, and these forces never remain the same for any length of time. Its variations in value likewise depend upon causes which affect the value of the other commodities with which the standard is compared, such as the supply of these commodities and the demand for them.

**Gold as a Standard of Value.**—What, then, shall be taken as such a standard? What, then, shall

be taken as the standard of value and also as one of the media of exchanges? In the history of man, that commodity has been selected as the standard of value which at the time possesses more nearly all of the properties that we have considered above than does any other commodity. Wampum, labor, tobacco, silver, gold,—each of these commodities has at one time or another been adopted by the American people as their standard. The European nations also have adopted as standards of value a variety of commodities. But to-day almost all of the great peoples of the world have declared gold to be their standard; and of all the commodities, which have so far been used as standards of value, gold is perhaps the most suitable, since it possesses more nearly all of the required properties. Its use for ordinary purposes in jewelry, plate, and instruments is quite universal. It is easily and cheaply transported from place to place. It is readily accepted in exchange, and with all these properties it at present possesses more stability of value than does any other known commodity.

**The Gold Dollar the American Standard.**—While practically all of the larger nations have within recent years adopted gold as their standard of value, and in this respect they have all worked out the same results, still each nation has its own peculiar unit of value, its own

amount of gold as a standard. In our country Congress years ago declared 23.22 grains of pure gold to be our standard, and gave it the name of dollar. And in all of our countless economic transactions this unit, a gold dollar, is the common measure. The economic motives and acts of the producers of our whole economic realm, as well as of the consumers, are gauged by this unit.

**The Relation of the Standard of Value to Prices; All Prices in Terms of the Standard.** — We have assumed that the relations of the producer and the consumer are best expressed in prices. And this assumption will be analyzed when we come to consider the market and market prices. A price is, however, something more than an expression of the forces of the producer and the consumer when they balance each other on a market. It is also an expression of these forces in terms of the common standard of value, which a people has adopted for its convenience and use. The price of every article bought and sold within the entire United States is in terms of the gold dollar. Let us illustrate this point. We mean by ten-cent cotton that ten pounds of it are equivalent to one dollar of gold. Four-cent flour means that twenty-five pounds of it are equivalent to one dollar in gold.

That the quantity of gold, as of any other

commodity of consumption, varies from time to time is well known. The activity and effort required for its extraction from the earth, the amount of capital, machinery, and business management employed in its mining and purification, are factors which vary both in quantity and quality. The supply of gold is, therefore, not an absolute quantity. The demand for it, just as the supply of it, also varies from time to time. The demand for any commodity whatever is not, as we have already seen, a permanent and unchanging force; the desires and wants of man, whether created by natural forces alone or by natural and social surroundings, vary in both quantity and quality. At times the wants for gold in the forms of jewelry, plate, instruments, etc., are great and very intense, while at other times they are small and less intense. These variations in the supply of and the demand for gold, and they are of many kinds and degrees, cause variations in the market value of gold.

And these variations in the value of gold—the standard of value in all the American exchanges or trades—cause variations in the prices not only of the standard commodity itself, gold, but also of all the other commodities. A change in the market value and price of American gold necessarily causes changes

in the market value and price of cotton, wheat, electricity, and all the other American products of whatever kind. But this is not all. All the other commodities are always changing, more or less, in their supply. One year we have ten and a half million bales of cotton, while another year the cotton crop amounts to more than thirteen and a half million bales. The number of yards of silk manufactured varies from month to month and from year to year. Not only, then, does the supply of the other commodities vary, but the demand for them is also always changing. These changes in the supply of and demand for the other commodities cause changes in the market value and price of these commodities, even though we assume that gold, the standard, is unchanging in its market price, and this assumption is not correct. The market prices of all the other commodities besides gold are, therefore, subject to two sets of forces, are liable to changes from two sets of causes: those which affect their own supply and demand; and those which affect the supply and demand of gold, the standard commodity in terms of which all the other commodities are measured. We, therefore, have changes in the prices of the other commodities because of variations in their own supply and demand, and also because of a rise or fall in the price of gold.



**Double or Single Standard of Value.** — It follows from the above considerations that, with any one single standard of value, even though it be the most perfect, we have variations in the prices of all goods. Changes in the prices of goods, and as a rule they are many and frequent, are not to be desired by producer or consumer. A fairly stable market is a blessing to all, provided the stability does not come as a result of stagnation in the business world. With a single gold standard, and gold is thought to possess the greatest stability of value of any known and widely used commodity, we have sufficient variations in prices. What would be the result of having two standards, as, for instance, gold and silver? From the analysis of prices, which we have already given in outline and which we shall later treat in much greater detail, we have seen that prices vary in consequence of the increase or decrease in the supply of and demand for goods, and also in consequence of the increase or decrease in the supply of and demand for gold. If we have two standards of value instead of one, the variations in prices will, we believe, become greater and greater. The silver standard, as well as the gold, will vary in its prices, increasing or decreasing, as its supply and demand change. With two standards of values or prices, and each one with its own

independent variations, there must be more changes in prices than there would be with only one standard of values.

**Single Standard the Ideal; Less Fluctuations in Prices.**—It is, however, contended that the variations in the values or prices of the two standards will of themselves mutually regulate each other, and that in consequence two standards will mean a more stable market, less and less fluctuations in prices, than could be the case with only a single standard. Such a contention is not sustained, it seems to us, by the facts of the past. Bimetallism, as the double standard has been called, has had a long trial. Many of the European countries had such a standard for centuries, and our own people gave it a trial for almost a hundred years. The world's experience has been to the effect that it is practically impossible to maintain the legal ratio of the standards—the ratio of exchange between the standards fixed by the government. The government must not only establish the unit and its value in each metal, but also establish the ratio at which the units of one metal must be accepted in exchange with the units of the other metal. The famous saying "Sixteen to one" means that the government should adopt a gold standard of value, a gold dollar composed of 23.22 grains of pure gold, and a

silver standard of value, a silver dollar composed of 371.52 grains of pure silver, and that one dollar of gold must always be accepted for one dollar of silver and *vice versa*. The market ratio between these two metals as commodities may be at the time of the passage of such a law sixteen to one. But the world's experience has shown that the market ratio, and this is the one regulated by the economic forces of the producer and the consumer, rarely ever remains for any length of time the same as that fixed by law. The business world will not long exchange silver and gold at exactly sixteen to one, though the government attempt to compel it to do so by the legal tender provision.<sup>1</sup> The actual ratio of exchange is at one time sixteen to one, at another time fifteen and a half to one, and at still another time sixteen and a half to one.

**Gresham's Law: the Dearer Standard Disappears.** — The world's experience is, that it is not only practically impossible to maintain the legal ratio between the two standards, — and numerous have been the attempts to do this, — but that it is also practically impossible to keep two standards in actual operation. In conse-

<sup>1</sup> The legal tender provision requires a creditor to accept from a debtor gold or silver at the ratio fixed by law, not at their market value or ratio.

quence of the changes in the value of the standards, and over these changes the government has exceedingly little influence, one standard becomes dearer and the other cheaper. And the cheaper standard has always driven the dearer one more or less out of existence; and the result has been that, while in theory there are two standards of value, in actual practice there is but one standard. Men will hoard the dearer money or transfer it from currency to use in jewelry, plate, and instruments, regardless of the artificial legal tender provision. All men will pay for their goods the lowest possible price; will pay in the cheapest standard of value.

The two standards of value have, therefore, failed to regulate the values or prices of each other, have failed to bring greater stability to the prices of the other commodities which are measured in terms of the standards, and finally have failed to maintain themselves as standards of value and media of exchanges. The experience of the world then agrees in the main with the theory of a double standard, of which we have already spoken. Fact and theory, therefore, both agree that money is most productive, is most serviceable to the producer of goods and their consumer — to the farmer, the miner, the manufacturer, the transportation agent, and the merchant — that money is a greater instru-

ment of producing wealth when the standard of it and of all the other commodities is single, not double. Whether this standard should be gold or silver is perhaps a debatable question. A single standard of value, gold, for instance, does not, however, mean a single form of money as a medium of exchange. The needs of the business world seem to us to call for a single standard of value, perhaps the gold standard. But these same needs seem to us to call for silver, nickel, and copper, as well as gold, as media of the exchange of goods.

### QUESTIONS

- (1) A New York merchant makes in a day one thousand trades with his customers. What serves as the standard of value in all of these trades?
- (2) What is the relation of the gold dollar to all prices in the United States?
- (3) Would you have a single gold standard?
- (4) Would you have a single silver standard?
- (5) Would you have a double standard—gold and silver?
- (6) Does a stable standard of value add to your wealth and welfare?

## CHAPTER XI

### EXCHANGE: MONEY A MEDIUM OF EXCHANGE—A PRODUCER OF WEALTH

**Importance of Media of Exchange.** — We have spoken of money as a standard of the values of all kinds, qualities, and quantities of commodities. We have seen that such a standard is a great instrument in the production of wealth. The economic realm of producers and consumers demands money not only as a standard of value, but also as a medium of the exchange of all its products. Many of these exchanges, at least as we have them to-day, cannot with ease and convenience be made in ordinary commodities alone. To be sure, ordinary goods are at times exchanged for ordinary goods, but this is not the rule of our present economic life. The ordinary commodities are now exchanged for money, in some form or other, and this money is in turn exchanged for ordinary commodities of various kinds. Money is the medium of these exchanges, and this medium is the instrument or means through which much economic force is transmitted.

It is, in fact, a great instrument in the production of wealth. Money as a medium of exchange, as well as a standard of value, may, therefore, with good reason be called a producer of wealth.

**Properties of Money as a Medium of Exchange.**

— Among the properties required of that commodity which is adopted by a people as its standard of value, *a high degree of exchangeability* is, as we have seen, one of the most important. This is an equally important property of money as a medium of exchange. The money medium must be acceptable to all persons in the exchange of their goods or services; otherwise the chief function of the medium is not performed. A medium of exchange is adopted for the very purpose of facilitating the exchange of goods and services of manifold kinds, not only within a small area but also throughout the economic realm of a people.

Not only must the medium possess the property of (1) *exchangeability*, but it must also possess that of (2) *accuracy*. The medium for which goods are exchanged should, as a matter of course, be as nearly an equivalent of these goods as is possible. A man will refuse to exchange his commodities for a medium unless he feels that he is receiving in return an equiv-

alent value. (3) *The property of being easily transported from place to place*, in small or large amounts, is also very necessary. The exchanges of the American people among themselves cover a distance of more than three thousand miles, and, if the medium of these exchanges cannot with ease be taken from place to place throughout this vast area, commerce is hindered. The medium should likewise possess (4) *the property of durability*, of being able to stand the wear and tear of commerce, and a (5) *form* and such (6) *marks* that all men may easily recognize its value. That it should possess these properties needs no special discussion. But, of all the many necessary properties of money as a medium of exchange, none are more important than those of (7) *its size and its elasticity*. The commercial transactions of a people cover a very wide range of values. The American deals in some goods valued at most at one cent, in other goods valued at hundreds of cents, and in still others valued at hundreds of dollars. For all these various transactions, there is an absolute need of a medium of corresponding size, ranging from one cent to thousands of dollars. In Europe, where commercial dealings are of much smaller value than are our own, there is great need of a medium of smaller size than our one-cent piece. It must



for them range as low as one fifth of a cent. In all countries the volume of exchange is fluctuating. At one time it is larger, at another time smaller. And the volume of money should always correspond with the changes in the demand for it.

**Composition of the Medium of Exchange.** — It follows, from the very purposes and properties of a medium of exchange, that it should be of different composition. In this respect, there is a fundamental difference between money as a standard of value and money as a medium of exchange. The one should be composed of only one commodity, while the other should be of several commodities. And the media of exchange or currency, as these media are called in popular speech, may be grouped under two heads: coin, or metallic money, and paper money. For metallic money the people of the United States, and of almost all the other countries, now use gold, silver, nickel, and copper, combined with certain alloys. As we have already seen, gold is our present standard of value, and in terms of this standard all of our other media of exchange are measured, whether they are metallic or paper.

(a) *Coin: Gold, Silver, Nickel, and Copper.* — Of gold coin, we have the twenty, ten, five, and two-and-a-half dollar pieces. While our

standard of value is the gold dollar, gold coin of this size is not at present minted. It is too small for convenience. Not only has it been found that the one-dollar gold piece is too small for practical use, but it has also been discovered that a gold coin of any size made of pure gold is impractical; it is not sufficiently hard to endure the wear and tear of commercial use. Gold coins of any denomination are now only nine tenths pure gold. Of the total weight of the double eagle, eagle, half eagle, or quarter eagle, one tenth is copper. The total weight of the eagle or ten-dollar gold piece, for instance, is 258 grains, but of this total weight only 232.2 grains are of pure gold.

We have silver coins known as the one-dollar, fifty-cent, twenty-five-cent, and ten-cent pieces. Each of these silver coins is composed of nine tenths pure silver and one tenth copper. And these silver pieces are now all subsidiary to the gold standard, and the legal value of these coins is fixed above that of their market. This provision was made in order to prevent the condition of having at times two actual standards of value,—gold and silver. Congress, after the people of the United States had long struggled under the fluctuations of two legal standards of value, established by law a single gold standard. But some further

legislation must be enacted, to make this single standard a permanent one. If the legal value of silver coin, or its legal ratio of exchange with gold coin, were fixed at that of its market, silver would in actual practice compete with gold as a standard of value, notwithstanding the fact that Congress has declared gold to be our only standard. And, moreover, if the silver coin, having been given such a legal value, should increase in its market value, as is often the case, it would become dearer than the gold coin. In consequence of such a condition silver would more or less disappear from use as currency, and this would hinder commerce; for silver coins, certainly those of the sizes below one dollar, are very necessary in business dealings. But the provision to the effect that the legal value of the silver coins shall be greater than their market value prevents the occurrence of such an undesirable condition.

In consequence of this provision, we have an abundance of silver coins for all of our commercial purposes; and we would most probably add to the efficiency of our money by converting our silver dollar pieces into the smaller sizes. In addition to the small silver coins, we have in fairly large quantities five-cent pieces of nickel and copper, and one-cent pieces of copper, tin, and zinc. While we have a very

large supply of coins ranging from fifty cents to one cent, our needs for such denominations are enormously great. Millions are the daily transactions in which only small values are involved, and we have no small currency of convenience<sup>1</sup> other than our small silver, nickel, and copper pieces.

(b) *Paper Money*. — As we have said, that commodity which any people adopts as its standard of value should in itself possess utility; the nature and function of a standard require this much. That all forms of money as media of exchange should in themselves possess value is, however, by no means necessary. They must, to be sure, represent things which of themselves possess value. Metallic money possesses utility in itself, as well as the property of serving as a medium of exchange, though this form of money at times possesses a legal value which is much higher than that of the market. Paper money, on the other hand, has absolutely no intrinsic value. It merely represents the obligation of a public or private body, and the reason for its acceptance by the business or commercial world is based entirely upon the confidence which the business world places in these bodies.

<sup>1</sup> The bank check may at times be used as small currency, but checks for very small amounts are inconvenient.

And this form of currency performs one distinct service which coin cannot render. It is more easily transported from place to place and from person to person than is metallic money. It, therefore, requires less and less police force to protect its transportation. When based upon gold as a standard of value, and when secured by wealth in some readily tangible form, paper media of exchange are, in addition to being cheap in the cost of issue, very convenient and safe. Unfortunately, however, much of the paper money is not based upon gold or upon some other form of wealth which is substantially as valuable as gold; in fact much of it is at times inconvertible. If all paper currency were readily convertible into the standard of value or its equivalent, its use would not only be safe but also most convenient and advantageous.

**Convertible Paper Money or Media of Exchange.**

— The paper medium called convertible is payable on demand, and in the standard of value itself, whenever the holder of it calls for such a form of payment. It, therefore, passes at par value; it is usually accepted by all without any objection whatever. The state also assigns to certain forms of it legal tender powers, and thereby to an extent compels its circulation.

Of this kind of paper currency, (1) *the silver certificate* is an important element. These cer-

tificates are issued by the treasury department in Washington, and are completely secured by silver dollars, which are held in reserve for the specific purpose of redeeming them. They are consequently safe and sound, are in extensive and common use, and serve the business world much more efficiently than do the silver dollars.<sup>1</sup> The denominations of this medium range from \$1 to \$1000. The federal treasury department has also issued (2) *gold certificates*. And these certificates are completely secured by gold coin, which is held in the vaults of the department for the specific purpose of redeeming them. Like the silver certificates, they are safe and serviceable to the commercial world, though they are in large denominations. They range from \$20 to \$10,000. Another form of convertible paper money is (3) *the United States treasury note*. These notes are issued by the federal treasury department, usually for a short period. Their redemption is guaranteed by this department, and for the most part they are to be redeemed within a short time, though no specific form or amount of coin is kept in reserve for their redemption. In this respect they are unlike the silver and gold certificates, though, like these media, they usually pass at par. Their circulation and acceptance depend, however,

<sup>1</sup> Silver dollar pieces are too heavy for convenience.

upon the confidence which is placed in the government's general financial ability, while the acceptance of the silver and gold certificates depends upon something much more tangible — upon silver and gold coins which are held in reserve for this very purpose. These treasury notes are issued for the purpose of temporarily expanding the currency, while silver and gold certificates never expand the media of exchange; they are issued only in the place of coin money.

Our federal government is not the only corporation which issues paper currency of the convertible type. Some of our private corporations issue this form of media of exchange. Our national banks issue such currency, and this is called (4) *national bank notes*. These bank notes are redeemable on demand, and are also fully secured by specific funds (United States bonds) deposited in the federal treasury department by the banks which issue them. In addition to the national bank notes, we have other forms of convertible paper currency issued by the banks, whether national, state, or private. We have (5) *checks, drafts, and circular letters of credit*,<sup>1</sup> and these forms enormously swell the volume of our currency. They are not, however,

<sup>1</sup> Checks, drafts, and circular letters of credit are the forms of the orders which individuals and banks make upon other individuals and banks for the payment of certain sums.

based upon specific funds which are held in reserve, either by the government or by the banks. Their security depends entirely upon the general funds of these private corporations. They are, however, redeemable on demand, whenever presented, and are consequently for the most part safe.

One property belongs to these forms of currency — checks, drafts, and letters of credit — which the other forms of convertible paper do not possess, if we except the treasury notes. These media of exchange are very elastic ; they can increase or decrease in proportion to the increase or decrease in the demand for them. From the very nature of money, from the fact that it serves as a medium in the exchange of goods which are constantly changing in their volume and quality, it follows that money should likewise possess the property or quality of being elastic or able to increase or decrease with the demand for it.

The metallic money of which we have spoken changes in volume, but as a rule its changes are not in proportion to or at the time of the changes in the demand for it. It requires time in which to mine and mint it. This lack of elasticity is also characteristic of silver and gold certificates ; they are merely representatives of coin of exactly the same amount. In fact,



most of our government paper and all of our coin and bank notes are inelastic. They do not meet the changes in the demand for money, which are caused by changes in the seasons, crops, etc. It requires too much time in which to increase or decrease these forms of money.

This lack of elasticity, of ready expansion and contraction, in our currency has called forth much agitation for a change, especially in our bank-note system. Our bank notes are at present very safe and sound, though they do not possess the property of elasticity. Whether or not our national banks should be allowed by the federal government to issue a certain amount of bank notes secured by one third of their amount in coin and two thirds of it in good and easily marketable securities, as Germany permits, we are not quite prepared to say. Such a plan would unquestionably give us a more elastic, expanding and contracting, currency. Would it also cause our bank notes to remain perfectly safe? We are most strongly inclined to think so, provided the federal government is very exacting in its supervision. Elasticity is a most desirable property in a medium of exchange, and the business world needs it, but safety is a more desirable one.

**Inconvertible Paper Money or Media of Exchange.**—The desire to expand the currency

of a people has been almost universal, and very many have been the schemes of such expansion. That economic life at times demands more media of exchange than it does at other times, needs no detailed discussion. This situation arises from the very nature of exchanges and from the very function of a medium of these exchanges. Economic life would be at a standstill were its calls for such media always the same. The governments have felt these calls for greater quantities of money, as well as those for smaller quantities. They have at times, especially in their own financial emergencies, answered these calls by issuing the form of paper currency called the treasury notes. And of this form of money we have already spoken. They have also in times of their own emergencies issued paper currency to which they assign a large legal tender power and which they promise to redeem at some very indefinite time. This form of government paper is called inconvertible, because the provision for its redemption is indefinite and uncertain, and the time of redemption at the wish of the government itself, not at the demand of the holder of such paper. And this medium is usually issued at a time when the general financial ability of the government is by no means great, and consequently the confidence which is placed in the

government is not sufficient to cause its paper to exchange at par value. Such paper money, therefore, depreciates, at times very greatly, brings disturbance into prices, tends to establish a secondary standard of value and prices, and finally drives the better and dearer money out of use.

These inconvertible forms of paper currency, which have at times been called *greenbacks*, have been resorted to at many different times and by many peoples. The experience of the world has, however, shown that such media of exchange, instead of being of advantage, instead of being a productive power, have brought disturbance, depreciation, demoralization, and loss. And the American people at times in their history, notably from 1862 to 1863, have dealt with such an instrument, which they supposed was possessed of productive power, but which was in reality an instrument of destruction.

### QUESTIONS

- (1) Would you accept one form of media of exchange as readily as you would another?
- (2) Why do the bank notes, which are issued by the first national bank of Richmond, Virginia, circulate freely throughout the United States?
- (3) Would you prefer a \$20 gold coin to a \$20 gold certificate?

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(4) Would you prefer a \$20 gold coin to a \$20 green-back (U.S. note)?

(5) Double your money. Have you doubled your wealth?

(6) Double your money. Have you doubled your welfare?

## CHAPTER XII

### THE STATE — A PRODUCER OF WEALTH

**The State as a Consumer and a Producer.** — Under the section devoted to the consumption of wealth, we have seen that the state, as well as the individuals, has many and varied wants. The state is, therefore, a consumer of wealth. And, according to our ideal of the relations of consumption and production, the state has no right to exist unless it is also a producer of wealth, and of as much wealth as it consumes. Is the state really a producer? As we have already seen, economic man is surrounded by nature and her forces and also by social environments. He lives and moves, consumes and produces wealth, amid these surroundings. He puts forth his activity and efforts in a collective body of individuals which we call the state. Does this state aid the individual in producing wealth? Does it in itself produce wealth or the conditions of wealth and welfare?

**Functions of the State.** — Answers to these questions can best be discovered in the analysis

of the functions and purposes of the state. But these functions vary more or less with the different stages of civilization and with the peculiar political philosophy of a people. To expect to find in all of the states exactly the same purposes and functions, is to assume that all the peoples who make up these states have wants and tastes, as well as thoughts, of exactly the same nature and quality. Such an assumption is, to be sure, merely ideal, if not indeed entirely fanciful and visionary. Every state has a personality of its own, and this is made up of the personalities of all of its citizens. The American state is in some of its aspects different from the German state, though there is much in common between them. The functions of the American state are, therefore, not exactly the same as those of the German state. While there are distinct differences in the functions of different states, it seems to us that these differences are more apparent than real, more in form than in fundamental principles. In our present consideration we shall, therefore, deal with the more fundamental and vital aspects; we shall deal with the functions which essentially belong to every modern state—the great functions of protection and development.

(a) *Protective Function.*—This vitally impor-

tant function of government is of a twofold nature. The state<sup>1</sup> protects the individual in all the manifold aspects of his life and effort, and also protects the collective body or public from the individual's numerous encroachments upon its rights and privileges. The collective body of citizens and the individual also are protected against encroachment, invasion, or destruction, from without; are protected from foreign enemies. They are also protected against the damages which arise from insurrection and civil war, from within. The state must maintain (1) *an efficient navy and army* for these very purposes. And these instruments of government not only aid in protecting the individual and the public from encroachments upon their rights and privileges, but also help in maintaining a general standard of peace and order, both at home and abroad, for the benefit of the individual's economic life.

In addition to these military departments, the state must maintain (2) a *judicial department*. By means of its courts the government renders invaluable aid to the production of wealth and welfare. It protects the inviolable liberty of the individual to work; saves his property from damages, by trespass, theft, and robbery; and

<sup>1</sup> We here use the term "state" in a general sense; it includes all the groups — nation, state, county, municipality.

explains and enforces the contracts which he makes with other individuals. By means of its (3) *legislative and executive departments* the state also provides against the diseases of the social body, and thereby it adds greatly to the productive power of this body, as well as to that of its individual members. It places under key and guard the mean and the vicious. It provides places for the pauper and the seriously deformed in body or mind. It excludes or expels the foreigner who would bring degrading or dangerous ideas and practices. And at times the state takes the life of one individual for the sake of the welfare of the other individuals; it puts out of the world those who are dangerous to the life and property of the individual. All of this work on the part of the state, while it does not directly produce wealth, adds enormously to the productive power of the individual and the community. It creates the vital conditions for both the production and the enjoyment of wealth.

(b) *Developmental Function*.— This function which we have called the protective, though it is the first to be worked out by a people, is by no means the only great governmental function. A state should not only furnish protection, but it should also take a direct part in developing conditions under which wealth and



welfare may be multiplied. In performing the protective function the state aids only indirectly in producing wealth and welfare. It should also aid directly. The government should maintain (1) *an efficient and uniform system of weights and measures*, according to which all goods are weighed and measured for the market, (2) *a stable and efficient system of money*, as a standard of value and a medium of exchange, and (3) *an efficient postal system*, by which news and intelligence are transmitted from place to place throughout its domains. The state should render all these services, and in so doing it aids directly the production of wealth and welfare.

And when the state establishes and promotes (4) *a standard of education*, it is creating conditions which are possessed of wonderfully great productive power. It not only causes the individual to become a more efficient producer of wealth, as well as a better citizen, but it also adds to the efficiency or productive power of all the other agents of production. The state, in collecting, formulating, and publishing (5) *the statistics of business life*, is producing the conditions of intelligence under which the individual producer may work to greater advantage. The state in granting (6) *patents and copyrights*, in granting monopoly

privileges for a time to that individual whose brain and energy have discovered some new instrument or thought, which is of benefit to the world, is a producer of the conditions of wealth. When the state (7) *digs canals, thereby creating great and advantageous waterways, when it dredges harbors, builds lighthouses, and maintains life-saving stations, when it aids in building a great railway through a new and unsettled territory*, when the state does all of these things for the benefit of the individual and the public, it is producing wealth and welfare upon an enormous scale.

That the state, when it performs all of these developmental functions, is a producer<sup>1</sup> of wealth few people deny. Upon this point there is substantial agreement. But when the state subsidizes steamship companies, when it protects certain producers by means of tariffs, and when it undertakes to own and operate certain great industries, like the railways, the state is entering into highly debatable fields. Whether the state when it enters these fields is really a producer of wealth and welfare, upon this question there is a vast difference of opinion.

<sup>1</sup> We mean here by the term "producer of wealth," that the state in performing these functions creates more utilities than it consumes in performing them.

**Developmental Function: (8) a Protective Tariff.<sup>1</sup>**

—A tariff duty as a tax, and to an extent a means of protection to industries, is well-nigh of universal use. England alone of all the great peoples now works largely upon the principle of free exchange of goods between the nations or upon the principle of a tariff for revenue exclusively. All the other important governments have a higher or lower protective tariff wall. They collect customs duties upon the goods which are imported into their borders. They collect tariff taxes both for the purpose of securing revenue for the state and also protection to the makers of certain products against foreign competition.

As we have seen, under the head of commerce, the ideal for the exchange of goods between people of the same nation is that of the most perfect freedom. And we believe that such freedom promotes the amount and the diversity of skill, division of labor, and specialization of trade; we believe that such freedom of exchange is indeed in itself an instrument which produces wealth.

Why should not the same principle apply in

<sup>1</sup> A tariff is a tax upon the goods of one nation when transported into another nation. The United States government places taxes upon certain goods that are brought into its ports from other countries, and these taxes we call customs duties or tariffs.

the case of the exchange of goods between different nations? We have already seen that the state has its manifold wants, and that these must be satiated by means of wealth in the shape of public revenue. We believe that the experience of governments has for the most part demonstrated the utility and perhaps the fairness of securing a considerable portion of this revenue from taxes placed upon imported goods.<sup>1</sup> The question which we shall now discuss is, therefore, not that of complete freedom of trade among the nations. Our problem is not free trade, but tariff. Shall our tariff be used for revenue exclusively? Shall it be used for revenue primarily and for protection to industries incidentally?

Tariffs exclusively for revenue can be placed only upon those few imported goods which are not produced in the country that levies the tax. Such tariffs, while they bring revenue to the state, afford no protection whatever to its industries, for there is no home production of these goods. But exceedingly few are the products that are imported into a vast and diversified country like our own, which are not produced at home in some quantity; and for us to secure

<sup>1</sup> But not a few students believe, that it would be of greater advantage and fairness for a nation to have perfect freedom in her foreign commerce and to collect her public revenue from other sources than tariffs.

a large revenue from tariffs upon these few products is practically impossible. For our federal government to secure maximum revenue from its tariffs, it must, it seems to us, levy a rate upon a very considerable number of imported goods which are also produced at home. Such tariffs would be for revenue primarily, not exclusively, and also for protection to certain home producers. The American producers of that kind of goods, which are imported and upon which the tariffs are laid, are certainly to the extent of these taxes protected against their foreign competitors. But the American consumer of the imported goods pays a part, if not all, of the taxes, at least in the first instance. Let us say, by way of illustration, that the English manufacturer can sell cotton cloth delivered in New York City at 20 cents a yard. If our federal government collects 5 cents per yard in tariff duties, the American consumer will have to pay at least 25 cents per yard, unless the American producers of this very grade of cotton cloth by competing with each other for the American market can and will supply it at a smaller price. This tariff most certainly eliminates some of the competition under which the American producers work, and gives them a greater control of the American market. If the tax is very high, it sweeps away all com-

petition from abroad, for no goods whatever will be imported when the tariff placed upon them is very great. One American producer now competes only with the other American manufacturers of the same goods. The tariff, though laid primarily for revenue purposes, therefore, protects the American producer and apparently at the cost of the American consumer.

But is the burden of the tariff entirely borne by the consumer, as many people think? Is the tax entirely borne by the consumer? To say that it is borne by him alone, is to assume that the consumer has no choice whatever in the cotton cloth or other goods which he consumes, that he always buys the same quantity regardless of their price, and that he is a very slave to the producer of these goods. That such an assumption is incorrect we have already proved, under the head of monopoly production.

While we cannot think that the consumer bears all of the burden of the tariff, —and all taxes of whatever kind are truly a burden upon a people, —we readily grant that the consumer bears a part of this burden. We contend, however, that the producer in a progressive community, where all producers are eagerly striving for maximum returns from their undertakings, bears part of this burden. Maximum returns

come, as we know, from extensive dealings as well as from high price dealings. And the producer, whether he will it or not, must give to the consumer of his goods some of the benefits that come to him from the protection which the tariffs afford him. His own selfish aims — maximum net returns — drive him to sell his goods at a fair price, at least at that price which will bring him greatest profits. He is, of course, well aware that a smaller quantity of his goods is sold when the price is higher.

Is such a tariff, a tax for revenue primarily and for protection incidentally, a producer of wealth? Does such a protective policy add to the productive power of all the people of a nation, to the consumers, as well as to the producers? This tariff is most certainly a burden upon many of the people, if not indeed all of them. But is not this burden more than overbalanced by the benefits, specific and general, which accrue from such a tariff policy? To these questions, it seems to us, no absolutely exact and unchanging answer can ever be made. We well know that the burden of obtaining revenue, with which to meet the many necessary wants of the state, must of necessity be borne by the individuals. And that the tariff may at times be a means of producing wealth or the conditions of wealth and welfare for a nation, and that

it may be at these times the least burdensome method of securing this public revenue, we are most strongly inclined to believe. This opinion is, however, expressed of a tariff which is levied primarily for revenue and incidentally for protection. A tariff tax laid primarily for special protection to a few producers, and not essentially for public revenue, cannot, we think, be defended by sound and unbiased reason.

We have just said that a tariff, levied primarily for public revenue and incidentally for protection to the producers of certain goods, may at times be for a nation a producer of wealth or of the conditions of wealth and welfare. In that country, in which capital and labor exist in insufficient quantities, in which interest and wages are in consequence much higher than they are in more thickly settled countries, a tariff which protects in a fairly uniform manner aids in creating new fields of production. It increases the diversity and energy of economic life. It causes more of manufacture, transportation, and domestic commerce, as well as of agriculture, and adds to the total productive power of a people.

That the people of the United States as a whole have received benefits from such a tariff, and that such a policy has at times been for us an instrument of production, we



fully believe. Early in our existence as a nation we were almost exclusively an agricultural people. Most of our activity and energy, and most of our capital and business management, were employed upon the soil, were spent in producing the elementary utilities — the raw materials. We were, moreover, possessed of but a few million people and a very small quantity of capital, though we had nature and her forces around us in great abundance. To convert our raw materials or elementary utilities into many and varied higher forms was then very costly. We had to pay high wages and interest. Our business management had not yet adjusted and correlated all the agents of production in such a manner as was required to manufacture the higher forms of goods at a low cost. The American manufacturer could not then compete with the European producer under the conditions of free competition. The American produced his goods at a high cost while the European manufactured his goods at a low cost, and the charges of transportation across the Atlantic in a sail ship were not very great. For the time being, therefore, the American producer of the higher forms of goods must either put forth much greater activity and effort than did the European, or completely fail. Our federal government threw around the

manufacturer a wall of protection, and he was given a field of work which was to an extent his own. By virtue of the great natural resources which surround him, by virtue of his own great energy and skill, and finally by the aid of a tariff protection, the manufacturer has become a great and permanent element and force in our life. And his coming has added energy and vitality to all the other aspects of our economic life. Manufacture is so productive of the conditions of wealth and welfare that it develops all the other groups of production.

Those were the days of our economic youth, and a tariff was then an agent for the increasing of our total productive power. To-day we are a great giant in the industrial or economic world. That our tariff policy, though it has at times been largely for other than public interests, has aided us in becoming so enormously great within such a marvelously short space of time, we fully believe. We contend, however, that its assistance has been comparatively slight, and that the fundamental and vital elements of our wonderful economic progress have been American labor, capital, natural resources, and business sense.

**Developmental Function: (9) Governmental Ownership and Operation of Certain Industries.**—The tariff question, especially as to whether a

tariff system is a means of adding to the productive power of a people, is not the only question of much debate and difference of opinion. How far the state shall own and operate industries is likewise a vitally important problem. And the solution of this problem by different nations has been very different. Among some peoples the state exists primarily and fundamentally for its protective functions. It supplies the individual with the conditions of peace and order, with a uniform system of weights and measures, with a more or less stable standard of value, with the media of exchange, and with fairly efficient postal and educational systems. For other peoples the government performs many developmental functions. It provides the individual with all of these and many other vital conditions. It also participates in some of the most fundamental of the industries, and at times operates these industries for the sake of adding to the productive power of all of its people and also for the sake of revenue to itself.

**Telegraphs and Telephones.** — Shall the state own and operate the telegraph and telephone industries? Both of these lines of industry have become almost fundamentally and vitally necessary to the life of a people. Is their operation when under private corporations more or

less productive of wealth and welfare than it is when under the management of the state? This vital question has been answered in both ways. Some nations have come to the decision that, for themselves at least, private ownership and operation of these industries are best and most efficient. Others have come to the opposite conclusion, and public ownership has among them been put into operation. The people of our own country, for the most part, still believe in private management. England has put public management into fairly successful operation.

Both of these industries belong to the most important field of the transmission of news and intelligence, and from many points of view they are to be considered in exactly the same light as is the postal system. In all of these industries the aim is identically the same — the transmission of intelligence. The difference between them is in the instrument of transmission, whether by wire or by carrier. The postal systems of the world are at present governmental. The fact that this system has been so vitally necessary for the government's own use — for military, legislative, judicial, and executive purposes — is perhaps the greatest reason why the postal industry has been undertaken by the state. But the telegraph and telephone are now fast

becoming as necessary to the state for its own use as is the postal system, and possibly these too will soon become governmental industries throughout the advanced nations of the world.

**Railways.** — Shall not the state own and operate the railways also? To this question various answers have been given. Some European countries have declared in favor of the affirmative, while others believe in the private operation of this great and fundamentally important industry. That this great industry is of most vital importance to all the other industries of whatever kind, needs no argument. It belongs to the transportation services of a people. It belongs to the transportation of its intelligence, persons, and products. Such services, as we have seen, are of fundamental necessity to the production of wealth and welfare. Shall such an industry, which bears the most vital relation to all the other industries — to the farmer, miner, manufacturer, and commercial agent — be owned and operated by the state or by private corporations? This is the vital question.

In order to answer this great question it is necessary to find out which operation is the more efficient. If public operation is the more economical and efficient, then such operation

is the ideal, and the sooner it can be realized the better it will be for the people and the government alike. If private management is the more economical and efficient, then the state should not by any means undertake to own and operate these industries. That there are many abuses under private management is very well known, but that state management will relieve these abuses is a highly debatable proposition. Governmental management of the railways could unquestionably bring more uniformity into the system and could do away with rebates and discriminating charges for freight, but whether it would accomplish these desirable ends is exceedingly doubtful. So far in our governmental activity corruption has played more or less a part; and corruption means a lack of uniformity, means abuses. It is claimed that governmental management would also bring cheaper rates to the consumer of railway services. It is well known that railway management under private corporations oftentimes brings great returns and profits. That the railway managers of our own country could at times afford to sell their services at cheaper rates, we do not doubt. But it is equally well known that government management is high-price management—that it is, as a rule, less economical and less efficient than private management. We, therefore, seriously

doubt that state management would in actual fact bring cheaper rates to the consumer.

To the question, shall the state own and operate the postal system, we are inclined to answer in the affirmative. While the operation of this industry by the state is possibly at a higher cost than would be its operation under private corporations, its service is perhaps more uniform and its charges are perhaps lower, since the state attempts to make no profits whatever. Shall the state own and manage the telegraph and telephone industries? We are inclined to answer in the negative, and for reasons of economy and efficiency. And upon the proposition of state ownership and operation of the railways we are most strongly inclined to the negative. Governmental operation of this industry might relieve some of the abuses which exist under private operation, but it would, certainly in the United States at least, bring many abuses of its own. In theory it might reduce the charges, but the wonderful extension and complexity of the industry are too great and the chances of corruption too large for state management to reduce at all materially the present cost of these services. The state might make revenue for itself out of the profits which now go to the private managers, and thereby save the public from some of the burdens of

taxation, but here too stands the fact that government management is higher priced than is private management. If the state produces railway services at a higher cost than does the private corporation, it will be compelled, in order to obtain revenue out of its profits, to sell these services at a higher price.

**Developmental Function: Proper Function.—** In all these discussions of the developmental function, we have assumed that it is the proper function of the state to undertake anything which really creates and promotes the conditions of wealth and welfare for its people as a whole. We believe that this is a correct assumption. The questions of tariff and governmental ownership are, therefore, questions of expediency, not of function. Does a protective tariff bring to society returns which are greater than its cost? If so, it is a productive force for the people as a whole. Does governmental ownership bring returns which are greater than its cost? If so, it also is a productive force for the people as a whole. If a protective tariff is really a productive force for a people, it is certainly the proper function of the state to put it into operation. If the governmental operation of the railways is a productive force for society as a whole, then it is certainly the duty of the state to put this also into operation.



### QUESTIONS

- (1) Can a man operate his business without the existence of the state?
- (2) Is the government a producer of wealth and welfare when it protects the individual in his business?
- (3) Is the government a producer of wealth and welfare when it educates the children?
- (4) Is the government a producer of wealth and welfare when it maintains uniform systems of weights, measures, money, postal service, patents, and copyrights?
- (5) Is the government a producer of wealth and welfare when it maintains lighthouses, life-saving stations, and when it digs canals and harbors?
- (6) Is the state a producer of wealth and welfare when it owns and operates the telephones, telegraphs, and railways?
- (7) Is the state a producer of wealth and welfare when it places a protective tariff upon certain imported goods?

## SECTION III

### CONSUMPTION AND PRODUCTION; MARKET PRICE—WELFARE

#### CHAPTER I

##### DEMAND AND SUPPLY; MARKET VALUE AND PRICE

**Consumer and Producer.** — We have now considered the forces and principles of the consumption of wealth. We have seen how these forces and principles create and regulate the consumer's demand for wealth in its various forms. We have also considered the forces and principles of the production of wealth. We have seen how these forces and principles create and regulate the producer's supply of goods in their various forms. We have discussed the consumer's price. We have also, in our discussion of the production of the supply of goods, assumed on the part of our readers a certain knowledge of the producer's price and the market price. It is now necessary for us to make an analysis of the forces and principles which are at work when consumer and producer, when

demand price and supply price, come together face to face in the market.

Goods are, as we know, in the main produced in answer to a demand for them. The producer's ideal is to produce just as many goods and of just the form which the consumer calls for. In a very extensive and complex economic society, as ours is, it is practically impossible for the producer to find out exactly what the consumer demands; in actual fact he produces too great or too small a quantity of his products. The producer for the most part attempts not only to produce the utilities which the consumer wants and demands, but also to sell these utilities to the consumer for the highest possible price. By producing the maximum amount which will sell for a good price he obtains the maximum total or gross income. But in order to secure the maximum net income — income above all operating expenses — the producer must also attempt to work his agents, forces, and instruments of production to the point of greatest possible advantage. By doing this he produces his goods at the lowest cost. The producer, therefore, has always before him two sets of difficult problems to solve. He must continually deal with the consumer, in order to sell him that quantity of goods and at that price which will bring to him the greatest

total returns. He must also work with the agents and forces of production, in order to produce his goods at the minimum cost. This second set of problems we have already considered. We must now consider more in detail the first set, — the demand of the consumer in relation to the supply of the producer.

**Demand and Supply; Market and Market Price.**

—The consumer's wants, as we have already seen, are manifold in quantity and intensity. The producer's supplies are equally varied. The consumer is also a producer, and the producer is likewise a consumer. The coming together of the producer and the consumer with their supply and demand is, therefore, a very complicated process. The place where demand and supply come together, where all the forces of consumption meet face to face with those of production, we call a market. The point at which these two sets of forces balance for the time is the market price, and this price is expressed in our common standard of value, a gold dollar. Market price is, therefore, the equilibrium of demand price and supply price. It is an equilibrium of the price which the consumer is willing to pay and the price which the producer can afford to accept.

These forces which are ever at work in the market place are exceedingly varied. They

are at times exceedingly great and strong, while at other times they are tiny and delicate. The market price of any commodity remains the same for only a very short time; it is ever swinging back and forth. Let us illustrate this point. The price of raw cotton is this morning at 10 o'clock 10 cents a pound, at 10.30 about 9.50 cents, at 12 o'clock 10.20 cents, etc. This price, at periods, changes as many as a hundred times within a few hours, while for other periods it remains very much the same for many days. The price of cotton, as well as that of the countless other commodities, fluctuates with the strength of the demand for it and the supply of it. The great and changing forces of demand and supply create not only the market but also the market price with all of its fluctuations.

**Market Price and Speculation; Demand and Supply.**—Some of these fluctuations in the prices of cotton, as well as of all other goods, are, to be sure, the result of artificial dealing with the mighty forces of the market. Manipulators and gamblers in prices have some influence upon them. As we have already said, the producer cannot possibly calculate exactly the demands of the consumer, or even the quantity or quality of his own supply. Likewise the consumer cannot calculate exactly the supply of

the producer, or the form and intensity of his own demands. There is, therefore, always more or less of an element of uncertainty in each market, wherever it may be, and of whatever commodity it may be. In this element of uncertainty some men, popularly called gamblers and manipulators "of futures," are at work. They at times make the consumer and the producer think that the supply of certain products is smaller than it really is, and this tends to cause an increase in the price of the products. At other times they make the consumer and the producer think that the supply is larger than it really is, and this tends to cause a decrease in the price of the goods. The manipulator of the market may, therefore, to an extent, influence the market price of goods. This influence is, however, only secondary. The real demand and supply, rather than the demand and supply fixed by the manipulator, fundamentally determine the price of every goods. The speculator, on the other hand, does not attempt to create false impressions as to the demand or the supply of a goods. He merely buys and sells the very element of uncertainty. And all buyers and sellers of goods are in a sense buying and selling at a price which is more or less uncertain. A merchant buys his winter stock early in the summer, — that is, he

agrees upon the price at least six months ahead of the delivery of the goods, — and the manufacturer sells this stock far ahead of the time of the production and delivery of the goods.

**Size of the Market : Local, National, or International.** — This equilibrium between consumer and producer, between demand and supply, may be merely local, or it may be national or international. A market was once entirely local. The producers and consumers of the same locality came together and sold and bought their goods; and the people of one section had no exchanges whatever with those of another section. Before the time of the fast express train and the refrigerator car the peaches and strawberries of North Carolina sold exclusively on a local market, and their price was fixed by the forces of this market. Peaches then sold in Greensboro, North Carolina, for the small sum of 25 cents a bushel. The same peaches, if they could have been transported with safety to New York City, would have sold for \$3. Now Carolina fruits can, with safety, and at not too great a cost, be transported to New York. The Carolina producer, after paying express or freight charges, realizes on that market \$1.50 per bushel. He would, of course, sell in North Carolina at this price, for this is the real price at which he sells in New

York. While he sells at home for \$1.50, this price is really regulated by the New York market, and not by that of his own home. And so extensive and efficient have become our transportation and commercial agencies and facilities, that the market price of most of our products, though produced in the various parts of our vast territory, is fixed by the forces of a national market, if not indeed by an international one. Let us consider two illustrations. The market price of gold, since the cost of its transportation is only a very small item, is practically the same the world over. Its price is regulated by the forces of the world's demand and supply. The market price of our cotton, while its transportation costs more than does gold, is also largely regulated by world forces and in a world market.

**A Market not a Geographical Place.**— A market of goods is in reality not a special geographical place. It is anywhere that consumer and producer happen to meet and come to an agreement; and such an agreement may be made on a public highway, or in a Pullman car which is flying across the country. The forces of this market are, in fact, much more mental than material. The products which are exchanged are material, but the trade, the agreement to exchange, is mental.



**A Market: Desires to buy and to sell; Consumer's Value.** — A market is, therefore, a point where all the mental forces of consumer and producer come together. It is indeed a critical mental point, in the reaching of which two human souls reveal themselves in all their selfishness or nobility. It is a point where the desires to buy and to sell meet each other face to face. These desires, as we know, are dependent upon the wants which the consumer has for a goods, and upon the supply of this goods which the producer possesses. The desires of the consumer to buy depend not only upon his wants for a goods, but also upon the value which he assigns to this goods. And the consumer assigns some value to every product, or rather to a certain unit of every product. Different classes of products are assigned value by different classes of consumers. One class of consumers demands a certain class of products, and thereby gives value to this class of goods. Another class of consumers demands a still different class of goods, and in consequence assigns value to this class. Let us illustrate this point. The demand for coarse cotton cloth comes in the main from the poorer and lower classes of workingmen, and the value of this grade of cotton fabrics is in the main given by this class of consumers. The beautiful laces,

on the other hand, are assigned values by a much higher grade of consumers.

**Market Value; Use Value and Cost Value. —**

The consumer by himself does not, however, create a market. We must have the producer, as well as the consumer, before we can have a market. These two persons, or rather sets of persons, when they come to an agreement to exchange products, have together assigned a value to the products, which is in some respects different from the value assigned by the consumer alone. We call this value, which is assigned by both consumer and producer, the *market value*. And we call the value which the consumer assigns to a goods *use value*, while that which the producer assigns is *cost value*. When the use value and the cost value of a goods come to a point of equilibrium, we have a market value, and the goods are now bought and sold. This market value, which is always expressed in a market price, is, therefore, the result of the equilibrium of consumer and producer, or of demand and supply.

**Market Price (Value) equals Cost of Production : the Ideal and Tendency. —** When the supply is always just as large as the demand for any goods and when there is no uncertainty whatever about the quantity of both the demand and the supply, the market price is stable. There

are no changes in it. If, for instance, the demand for wheat is always the same quantity and the supply of wheat the same amount, the market price of wheat will remain exactly the same from day to day and from season to season. *Under such a condition, if perchance such a condition ever exists, of the demand for and the supply of wheat, its market price is exactly equal to the cost of its production;* for the demand price resolves itself into the cost of production. If the demand is exactly equal to the supply, the demand price must be exactly equal to the supply price or cost price. In this case the market value of wheat per bushel equals the cost of growing this bushel, and this cost includes wages, rent, interest, pay of business management, and insurance.

**Market Price (Value) equals Cost and Profits: in Fact.** — But such a condition of the demand for and the supply of wheat, or of any other product whatever, is purely imaginary. In actual life the demand for wheat is always changing, and so also is its supply. The demand and the supply are indeed ever changing, and these changes as a rule are not in the same ratio. The demand is at one time greater than it is at another, while at the same time the supply of the goods demanded may be smaller. There is likewise ever present an element of

uncertainty in both the demand and the supply. These changes in the demand and the supply, as well as the uncertainty as to the amounts of either, necessarily cause fluctuations in the market price. To calculate, under such conditions, exactly what the market price will be in the future is, to say the least, very difficult, if not indeed impossible.

And the market price under such actual conditions never exactly equals the cost of producing the goods. Let us illustrate. During one season the market price of raw cotton ranges from 10 cents to 17 cents a pound, while during the following season the market price ranges from 7 cents to 11 cents. These great changes in the market price are due in part to the changes in the cost of producing cotton, but the cost of production during these two successive seasons does not change materially. In fact, the cost of producing a pound of cotton is only slightly greater the first year than it is the second. During both seasons the market price is in the main greater than the cost of production. In both 17 and 11 cent cotton there is a very considerable element of profit. It costs the farmer upon the average 6 cents to produce a pound of raw cotton, and this cost includes the pay of business management and insurance, as well as wages, rent, and interest.

The transportation and commercial services, which are used to place the cotton on the market, cost upon an average 2 cents a pound. This makes the total cost at 8 cents. The cotton which sells at 11 cents a pound has in its market price 3 cents of profits, 3 cents per pound above all cost of producing it; and that which sells for 17 cents has 9 cents of profits.

There may, therefore, be a considerable element of profits in each market price. Under the imaginary conditions, of which we have spoken, the price equals the cost of production. Under the actual conditions of business life, the price may be equal to the cost of production and profits. And the price may at times be below the cost of production. Cotton, which costs 8 cents a pound, has sold at times for about 6 or 7 cents. This is, however, not the rule, at least for any length of time or for large quantities. But under such conditions, when the demand is much smaller than the supply, the market price equals the cost of production minus a loss. The market price may, therefore, be stated in the following form: *market price = cost of production plus profits; or market price = cost of production minus loss.* And the profits or the loss come as a result of the lack of balancing or equilibrium of the demand and the supply.

**Market Price (Value) at Times equals Cost and Loss; Dumping Goods.** — We have just said that a market price which is below the cost of production is not the rule, though such a price now and then controls the market of a few products. There are certain quantities of almost every product which sell for a much lower price than does the larger part of this product. The producer is eager to produce as large a quantity as the consumer demands. He desires to supply every demand for his goods. But since he can never exactly calculate how much the consumer will call for, and the consumer is subject to many changes in his wants and demands, the producer as a rule produces greater quantities than he can sell to the consumer at a fair price. What becomes of the surplus?

That which is left of the supply of a certain goods at the end of the season must of necessity be sold at a lower price than that which the consumer paid during the season. The demand for this surplus may not exist long after the season is passed; the goods may be in a very short time entirely out of fashion. And the consumer does not desire to buy it as strongly as he did the same goods earlier in the season. He will, however, buy it at a much lower price. The producer cannot afford to keep the surplus. He must dispose of it at some price, in

order to make room for products which are in higher demand. He now sells a yard of a certain cloth at 12 cents, which earlier in the season sold for 20 cents, and which perhaps cost him at least 15 cents per yard. He dumps his surplus goods, to use a commercial phrase. While this surplus sells at a price which is below the cost of production, the larger part of his product sold for 20 cents, at a price considerably above the cost of production. This charge has very frequently been brought against the monopoly producer, of dumping his surplus goods upon Europe, of selling to Europeans at a price much lower than that which the American consumer pays. That the monopoly producer dumps some of his products, there is no doubt whatever, but the competitive producer also does the very same thing. As a matter of business, they both must of necessity do this. The dumping is, however, as a rule, after the season is over, or almost over, and the American consumer, as well as the European, receives the benefits of reduced prices.

**Increase in Demand ; Market Price.** — Under the head of consumption, we have spoken of the general relations which the consumer's demand bears to the price of goods. It is now necessary for us to consider this phase of the market somewhat more in detail and from the point of view

of the supply of the goods, as well as of the demand for them. In a general way we may say that an increase in the demand for a product causes an increase in its market price. By way of illustration, let us examine the effect of a 25 per cent increase in the demand for a goods. If the goods can be produced at a uniform or constant cost—at the same cost per unit of goods irrespective of the number of units produced—an increase in the demand of 25 per cent will cause a corresponding increase in the price of the goods, unless the supply of the goods should at the same time be increased. If the 25 per cent increase in the demand is for a goods which is produced at an increasing cost—the more units produced the more it costs per unit to produce them—the price will for a time increase more than 25 per cent. A 25 per cent increase in the demand for a goods which is produced at a decreasing cost—the more units produced the less the cost per unit to produce them—will for the time cause an increase in the price of the goods, but not to the extent of a 25 per cent increase. But all of these statements assume that the increase in the demand is sudden and that there is for the time no increase in the supply of the goods.

**Increase in Demand and Supply; Market Price.**  
—This assumption is, however, for most



products, quite imaginary. As a rule the increase in the demand for a goods is gradual, not very sudden. And there is also an increase in the supply of the goods, if not at the very same time with the increase in the demand for it, certainly within a short period. For almost every product an increase in the demand not only causes an increase in the price of it, but also causes an increase in its supply; and the increase in its supply tends to bring its price downward. The first effect, then, of a normal increase in the demand for a goods is an increase in the price of it, and the increase in its price causes a greater quantity of the goods to be produced sooner or later. An abnormal increase in the demand for a product, or a demand which is of but a few days' duration, will cause an increase in the price of the product, but it may not cause an increase in its supply. If the increase in the demand is of but a short duration, there can be little increase in the supply, though the market price for the time does increase. It requires time, in some cases only a few days, while in others many months, in which to increase the supply of goods.

Let us illustrate this point. An increase in the demand for raw cotton fiber, which continues throughout the larger part of the season, causes a normal increase in its price. The farmer will

make serious attempts during the following season to increase its supply. Whether he can, during the next season, produce a greater quantity of cotton depends not only upon his own attempts, but also upon the condition of the other agents of production, and upon whether the forces of nature are favorable to him. An increase in the demand for peaches causes an increase in their price. The farmer immediately plants more trees, but before he can finally bring about an increase in the supply of peaches several years must have passed. While it requires at least one year for an increase in the supply of cotton fiber, and from four to six years for an increase in the supply of peaches, there are other products an increase in the supply of which requires but a few days or a few weeks.

But whether to bring forth an increase in the supply of products requires many years or only a few days, an increase in the supply in the main follows an increase in the price. The general tendency or law may, therefore, be stated, as follows: *an increase in the demand causes an increase in the market price; an increase in the market price causes an increase in the supply of the goods; an increase in the supply causes a decrease in the price. But if the demand remains the same while the supply of a goods increases, the price decreases, and a*

*decrease in the price in turn causes a decrease in the supply.* Demand and supply always tend, therefore, to balance each other, though in this tendency the scale bar tips up and down many a time before it reaches the point of balance or equilibrium. Demand and supply are, then, the great master forces of the market. At the point where the consumer and the producer come to an agreement, there the fundamental and vital forces of demand and supply come to an equilibrium. And market prices are in the main established and regulated by these great forces, and throughout all their fluctuations these forces are their chief guides. The manipulator and gambler in market prices may for the moment feel their own importance, but fortunately for the masses of men these must, too, yield to the masters of all.

### QUESTIONS

- (1) What does the consumer have to do in fixing the market price of cotton, corn, houses, railway services?
- (2) What does the producer have to do in fixing the market price of these goods?
- (3) Is the price of gold ever regulated by a local market?
- (4) How far does the cost of growing cotton regulate its market price?
- (5) The market price of cotton is during one year about 9 cents per pound. It is during another year about 12 cents. Why the difference?
- (6) Are market prices of great importance to the consumer and the producer?

## SECTION IV

### THE PRODUCTION AND DISTRIBUTION OF WEALTH — WELFARE

#### CHAPTER I

##### DISTRIBUTION: ITS NATURE AND STANDARD

**The Relation of Distribution to Production.** — As we have already said, there are only two sets of human forces at work in all economic life, — those of the consumer and those of the producer. These two sets of human forces come together in the market, and their resultant is a market value. This value, which is always expressed in terms of a price, is the mental meeting point of all the forces and aspects of the consumption and production of wealth. How much of this value or price belongs to each of the different agents which together produce the goods? As we have seen, every product or form of goods is the resultant of labor, land, capital, and business management, working together under the state's protection and assistance. How much of each market price shall go to labor, land, capital, business management,

and the state? This is the question, and it is fundamentally and vitally important. There is no question in the whole economic realm of greater importance. And it is the great task of distribution to answer it. The work of production is to build up products piece by piece, utility by utility, until they possess as much value or as many utilities as the consumer needs and demands. The task of the distribution of wealth is to analyze each product and to find out what part, what utilities, each agent of production has contributed. But is there not a key which will unlock all of the chambers of distribution?

**Value, the Key of Distribution as well as of Consumption and Production.** — It is value that is the key to all the forces of the consumption and production of wealth. Is it not also the key to its distribution? Yes, as we understand it, value is the key to all the forces of the distribution of wealth; it is at least the ideal according to which distribution is ever at work. We mean that, for the most part, labor, land, capital, and business management, each receives of every product the part which it produces, or its equivalent. We mean that, out of every market price, each agent receives, or at least tends to receive, the exact value that it adds to the product which sells for this price. And this ideal is

always at work in distribution, though oftentimes wealth is distributed among the agents of production seemingly according to a different principle.

**Value given for Value produced: the Standard.—**

Our ideal of the distribution of wealth is, that no agent of production should receive more than it actually produces, and that no man should consume more than he actually produces. Value to whom or to what value is due, is most certainly a standard based upon equity. This, of course, means that to the agent which produces little only little should be given; to the agent which produces much, much should be given. And this ideal of distributing to each agent of production the exact amount of wealth which it produces, the exact value which it adds, should also be the ideal in all aspects of human life, whether economic, political, social, intellectual, or religious. Our governmental and social organizations, our schools and universities, our churches and missions, — none of these institutions have the right to exist and consume wealth, unless they produce conditions of wealth or welfare that are in value at least equal to that which they consume.

As we have already said, wealth is apparently at times distributed according to a standard which is different from the one we have adopted

as our ideal. Among husbands, wives, and children wealth is every day seemingly distributed not according to the value added, but according to personal love. Charity and philanthropy, as well as family affection, also enter into the distribution of wealth. The deformed, the deaf, the dumb, the blind, and the infirm, have wealth distributed to them according to the charity and philanthropy of individuals, cities, and states. Many men, therefore, apparently live upon the work of others — in the favor of others.

These exceptions to our standard are, however, much more apparent than real. Many children, to be sure, are consumers of wealth, not producers of it. And they should, during their earlier years, produce not wealth but strength and energy of body and mind. They should produce that physical and mental strength which will in the future possess great productive power not only for themselves but also for their parents. While during their childhood they are for the most part not direct producers of wealth, still in many cases they stimulate others to greater and greater economic activity and efforts. The infirm and the deformed also are consumers, not producers of products. Their fellow-beings must support them. Their fellow-beings must produce for them that wealth which

they consume. But their infirmities are not so infrequently the results of overwork on their own part or that of their parents, and, therefore, a part of that which they consume during their infirmity is in reality what they themselves have produced during their better days. Though both the child and the infirm consume more wealth than they produce, even yet they may be producers of human welfare. They have much power in creating and fostering the spirit of unselfishness, of kindness, and of honesty, and this spirit is truly a guardian angel of our welfare. The support and care of the weak and deformed have taught us many ideals and standards of conduct in the economic realm.

**The Value or Productivity Theory of Distribution.**

—To find out exactly how much each agent produces is very difficult. To know exactly how much of every product has been produced by each agent, and how much of every market price should be distributed to each agent, is no easy task. The business manager assumes the task of producing a certain form of goods. He hires labor, land, and capital. These three agents, together with his own management, produce the required form, say a yard of cotton cloth which can be delivered on the market at 50 cents. Each agent has produced a part of this cloth—has



added value to it. But exactly how much value each agent has added, how much of the 50 cents belongs to each agent, this is the great and vital question.

According to our standard of distribution, labor should have of this value just as much as it has produced, and likewise land, capital, and business management should receive of this value the exact part which they each have added. The fact that the business manager receives the 50 cents from the consumer makes him the chief agent in its distribution. How much of this price will he pay to labor, to land, and to capital? As a matter of fact, he has already fixed by contract the pay of each of these agents, and, therefore, for the time their pay is regulated by contract. But what ultimately regulates his contract with each of these agents? Suppose the manager has contracted to pay labor 15 cents for its part of the yard of cotton cloth, land 15 cents, and capital 15 cents, and he values his own management at 10 cents.<sup>1</sup> The cloth, therefore, costs him 55 cents per yard, though at the time he is compelled to sell it for 50 cents. Who bears the loss? The manager is compelled by his contract to pay 45 cents to the other agents. This leaves him only 5 cents for his own man-

<sup>1</sup> These figures are not at all the actual ones. They are merely taken for the purpose of illustration.

agement, though this is worth at least 10 cents. The manager must bear the loss on this particular yard of cloth. He cannot possibly shift it to the other agents. Before contracting with the agents of production to produce another yard of cotton cloth which sells on the market for 50 cents, he will force them, if he can, to accept less value for their part, say 13 cents each. This second yard sells for 50 cents. And after the manager pays the other agents 13 cents each, he has left for his own management 10 cents, and also 1 cent for profits.

**The Product of Each Agent figured on the Margin: the Standard of Pay.**—Why will the business manager make a contract with the other agents to pay them a certain value for each product made? He agrees to pay labor 15 cents or 13 cents for its part of the product, because he believes that labor creates in cotton cloth at least 15 cents or 13 cents of value. The experience of his fellow-managers, as well as of himself, makes it possible for him to calculate with considerable accuracy how much productive power each of these agents has for him. The managers experiment with the number of units of each agent which they can employ to greatest advantage. They figure on the margin of their productivity. Shall they pay a laborer 15 cents a yard or shall they pay him 14 cents or 16 cents? The

margin of 1 cent per yard is of very great importance to both the manager and the laborer. It is also of vital importance to the land and capital which he employs in producing this yard of cloth. The amount which he will pay either of these is figured on the margin of their productive power.

**Agents paid in Proportion to their Productive Power:** the Ideal, though the Changes in their Demand and Supply give to the Employer a Point of Advantage. — The fact that the employer or business manager is the one who makes the calculations of the productive power of the other agents, and the fact that he is also the chief instrument in the actual distribution of wealth, give him a point of enormous advantage over the other agents. In contracting to pay wages to ordinary laborers, rent to land, interest to capital, the manager as a rule makes use of his superior and advantageous situation. He pays to these agents the smallest value possible. He often-times drives hard bargains with them, especially with the ignorant laborers, and not infrequently keeps for his own management a much larger part of each product than his managing ability really produces.

This manager at times not only pays his own managing ability much more than it really produces, but he also receives the profits which come as a result of the lack of equilibrium in

the demand for and the supply of his products. He must, however, bear the burden of a loss, in case he cannot sell his products for a price which will fully cover the cost of their production. And all of the profits do not long remain in the manager's possession. Profits cause him to attempt to produce a greater quantity of goods. In order to produce more goods, he must employ a greater quantity of the other agents, and in order to secure a greater quantity of these agents he must, according to the law of demand and supply, pay higher wages, higher rent, and higher interest. Losses, on the other hand, are not all permanently borne by the manager. Under such a condition of production, he produces a smaller quantity of goods, and consequently his demand for the other agents is smaller and their pay is at a lower rate.

The employer or manager must, therefore, work in accordance with the great economic law of demand and supply, which operates not only on the part of the consumer of his goods but also on the part of the agents of their production. Were there no changes in the demand for and supply of his goods, and were there no fluctuations in the demand for and supply of the agents of production of which he must make use, there would of course be no changes in the price at which he sells his goods and no changes

in the value which he pays to his agents. Under such conditions it would be comparatively easy to find out exactly what each agent produces. Under such conditions the manager would likewise be compelled by great economic forces to pay each agent the exact value which it adds to every product. His position of advantage would not enable him to obtain too great rewards for his own management and also too great profits. While such conditions are not the actual ones in a progressive community like our own, still the tendency is everywhere and at all times toward an equilibrium in the market of ordinary products, and also in the market of the agents of their production. As the ordinary goods sell for the most part according to their value, so likewise the agents of production sell for the most part according to their value, according to their productive power.

### QUESTIONS

- (1) What do you mean by the distribution of wealth?
- (2) Is value important in the consumption, production, and distribution of wealth?
- (3) Would you distribute to labor, land, capital, and business management, the exact amount which each of these agents produces?
- (4) Does the distribution of wealth have much to do with your welfare?

## CHAPTER II

### DISTRIBUTION OF WEALTH AND WAGES

**Importance of Wages.** — To the employer, as well as to the laborer, wages are most vitally important. As labor is the most vital problem in the production of wealth, so wages are the most perplexing and difficult one in its distribution. To find out exactly what labor produces in every product which is sold on the market, to find out the value which labor adds to this product, and to pay to the laborer wages which exactly represent his product, these are problems which confront every laborer and every employer. If the worker is not paid in wages exactly that which he produces, he is robbed of a part of his earnings, and in consequence has a smaller quantity of wealth for his own consumption; and his productive power depends very largely upon the quantity and quality of the goods which he consumes. But if the laborer, by one means or another, obtains in wages more than he produces, some other laborer or agent of production is deprived of a part of his earnings, or the consumer has to bear the burden, in a higher price, when he buys the product.

**Wages regulated by the Inherent Power of Labor at work under the Conditions of its Supply and Demand.** — As we have already said, wages are in the main paid according to the productive power or efficiency of the laborer. While there are exceptions to this standard, still these exceptions do not destroy the standard itself. The employer pays for labor as small wages as he can, and at times he pays different wages for the same work, but the tendency everywhere and at all times is to pay wages in proportion to the product which the laborer creates.

This productive power of the laborer depends not only upon his own strength, judgment, and ambition, but also upon the demand for and supply of labor. Labor is in fact, from many points of view, exactly like the ordinary products or commodities which are daily bought and sold in the markets. The market price of raw cotton, for instance, varies from time to time, though the inherent properties or qualities of the cotton fiber remain exactly the same. The market price of this commodity, as of all the other commodities, depends not only upon its own inherent properties, but also upon the quantity of it as compared with the demand for it. While there are many fluctuations in the prices of this commodity, its prices are always regulated for the most part by its efficiency or value; and the

value of every article in the whole economic realm is the product of its own qualities working under the existing conditions of its demand and supply. The prices of labor — wages — are, therefore, the results of the inherent power of labor at work under the existing conditions of its demand and supply.

Such a standard of wages by no means assumes that every laborer shall be paid the same wages. It only assumes that every laborer of the same efficiency and under the same conditions of the demand for labor and its supply shall receive the same wages. There are, from the point of view of their productive power, many different grades of laborers. Laborers differ widely in their strength, energy, judgment, and ambition. They also work amid different conditions of the supply of labor as compared with the demand for it. Two men of the same inherent productive power live in different economic locations. One receives in daily wages \$1, while the other for the same work receives \$1.50. The difference in their earnings comes in this case from the differences of their economic situations. And in the same economic situation we, as a rule, have many grades of labor and consequently many grades of wages. One laborer in New York City receives \$2 a day, another \$3, and another \$6.

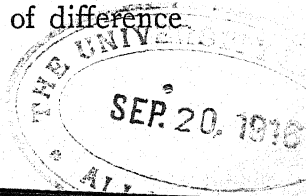


According to our standard of wages, every laborer of the same grade of efficiency and working in the same economic situation should receive the same wages. This standard is beyond a doubt the ideal in the payment of wages, and it is more or less fully realized in the actual distribution of wealth into labor. The laborers who are of the same grade, and who are at work under the same conditions of demand and supply, are competing with each other, and the natural tendency for them to receive the identically same wages is very strong. The competition between one grade of labor and another grade is, however, very slight; the man who can earn \$6 a day has little, if any, competition to meet on the part of the man whose productive power is measured by \$2 or \$3. Let us consider an illustration. The competition between the cotton spinners of Massachusetts and the carpenters, brick masons, or electricians, of the same location is slight, though within each group of these workers there is much competition, and wages tend to the same level. The cotton spinner in the South Carolina mills receives 10 cents a day for each machine he operates. The spinner in the Rhode Island mills receives 12 cents per day for each machine. Let us assume that they each operate the same number of machines. Their own energy and skill

are then the same. The difference in their wages is then determined by the difference in the demand for and supply of labor in the two locations. The supply of labor in Rhode Island, as compared with the demand for it, is smaller, and consequently for the same work higher wages are paid in Rhode Island than in South Carolina.

But why does labor not migrate from South Carolina to Rhode Island, in order to receive the higher wages? Why does it not move from a place where the demand for it is smaller to a place where the demand for it is greater? Love of home, fear of failure in the new situation, and indifference to higher wages in part explain the lack of movement from one place to another. The chief reason for the failure to move is, however, the greater cost of living. While wages are higher in Rhode Island, the cost of living there is also higher. The cost of producing labor services, as of producing all other commodities, tends to regulate the price of labor, or wages. Ten cents in South Carolina will bring the laborer at least as much comfort as will 12 cents in New England.

We have in fact a great variety of wages. We have difference in wages because of difference in skill, because of difference in the inherent power of labor, because of difference



in the supply of this labor as compared with the demand for it, and finally because of difference in the cost of producing labor services in the different groups of work and in the different locations of these groups. But throughout our great variety of wages runs the idea of the productivity of labor. The conditions of demand and supply certainly have a profound influence over wages, but the most vital force in their regulation is the inherent productive power of the laborer.

**The Peculiarities of Labor as a Commodity; Wages.** — We have already said that labor may be considered in the same general way as all the other commodities, which are produced and consumed, and that its price is regulated by its inherent properties and by the conditions of its demand and supply. Labor as a commodity has, however, certain peculiarities which differentiate it from the other commodities that are on the market. And we shall treat of these peculiarities in the following paragraphs.

(1) *When labor is bought or sold, it is the service of the laborer, not his person, which is exchanged.* The personal element exists in this kind of an exchange in both the buyer and the commodity bought, and this personal element is always a most important one. Labor service is truly a commodity, but it cannot be dealt with in ex-

actly the same manner and with the same spirit as can the ordinary commodities of consumption, such as a ton of coal or a pound of cotton. The labor commodity always possesses, even in the case of the despised slave, a personal individuality which is not to be found in the other commodities; and this is true of both common labor and of managing labor. Capital and land, as well as all the many varieties of the commodities of ordinary consumption, are totally lacking in this personal individuality. The personal element in the wage problem is, therefore, a most vital one, while in the prices of other commodities there is no such a factor.

(2) *As a result of this personal element, labor service cannot be sold except in connection with the laborer himself.* The laborer cannot, therefore, live in one location and sell his services in a far-away location; he must migrate from field to field before he can find a greater market for his labor commodity. The American wheat grower can, on the other hand, sell his products in any part of the world without himself moving from place to place. All the ordinary commodities tend to compete with each other the world over, on a great international market. But for labor, and for land, as we shall later see, there is a much greater lack of mobility. The prices of labor services are in consequence

largely regulated by the forces of a local market, not by those of a national or international one. As we have already seen, the wages in New England for the same grade of efficiency are higher than those in the Southern states. Even within the New England states there are many different local markets for labor. But let us consider two more illustrations. In Japan labor is abundant in proportion to the demand for it, and wages are consequently low; they are governed almost entirely by the forces of the different Japanese labor markets. In the western sections of our own country, on the other hand, labor is much less abundant than it is in Japan, and wages are much higher. While some labor comes from Japan to our Western coast, still it is as yet in comparatively small quantities.

(3) *An increase in the demand for labor services is by no means immediately followed by a corresponding increase in their supply.* If labor were very mobile, an increase in the demand for it in one place or group of work would be immediately followed by an increase in the supply of it in that place or group. It would migrate from a place of smaller demand and wages to one of greater demand and wages. Labor is not, however, readily mobile; the migration of labor services is in actual fact comparatively slow. And an increase in the supply

of labor by means of the excess of births over deaths is still slower. In fact it requires from fifteen to twenty-five years in which to rear a laborer. But it requires as a rule only a short time in which to produce the other commodities. An increase in the supply of these commodities follows within a short time the increase in the demand for them. An increase in the demand for corn, for instance, is usually followed by an increase in its supply within one season.

**Supply and Demand of Labor ; Wages.**— While to increase the supply of labor by an increase in the birth rate and a decrease in the death rate is slow, still higher wages mean in the long run an increase in the supply of labor. Higher wages tend in the main to bring into the world a greater number of children. Higher wages also tend to cause a decrease in the death rate, for under such conditions children are cared for in a more efficient way. The reverse is, of course, equally true ; a decrease in wages tends to decrease the supply of labor. We have already seen that an increase in the demand for ordinary products creates a higher price, and a higher price causes a greater supply of these goods to be produced. The greater supply, however, tends to bring the price downward. And this twofold tendency is for the most part true of labor also. *An increase in*

*the demand for it causes higher wages, higher wages create a greater supply of it, and the greater supply tends to bring the wages downward.* If, however, the demand for the other commodities and for labor continues to increase, an increase in the supply of them, while it tends to cause a decrease, will not in actual fact bring about much decrease in their prices and wages, if indeed any. A constant and continuous increase in the demand will cause such an increase in prices and wages, unless the increase in the supply is as great as that in the demand. There is, therefore, a vitally close connection between wages and the supply of labor; population is indeed subject to the great law of the economic realm, to the law of supply and demand. Its size has a profound influence upon wages, and wages in turn influence its size.

This law is universal. The forces of demand and supply are always and everywhere at work. They are ever at work in the market of all products and commodities; they are at work in the market of labor, land, capital, and business management, as well as that of all the countless products of these agents. They are at work in the wages of the laborer who toils in China, as well as in England and the United States.

As we have seen, wages in China have become lower as population has increased, be-

cause the demand for labor has not grown as rapidly as has the supply of it. In the United States, on the other hand, population has had a very marvelous increase, but the demand for labor has had a still greater increase, and in consequence wages have become greater and greater. In China, while the individual laborer may possess much energy and skill, he has but little of the other agents of production with which to work; the demand for his service is very small. The same Chinese laborer at work in our own country, where economic society offers him the other agents in great abundance, where the production of wealth demands his services, and where the supply of labor as compared with the demand for it is small, here his wages are much higher.

**Efficiency of Labor; Wages.** — We have seen that wages are regulated by the laborer's energy and skill at work under the conditions of the supply of his services and the demand for them. And these inherent properties of the individual laborer are in turn profoundly influenced by the price at which he sells his services. The quality of any ordinary product is, as we know, largely influenced by the price at which it sells on the market. A small price, as a rule, means a poor quality. Six cents a yard for cotton cloth means of necessity a coarse



quality of fabric. The quality of labor, as that of all the other commodities, is also largely dependent upon the price for which it sells. The worker who receives in wages \$6 a day can afford to do a high grade of work, while the worker who receives but 50 cents a day cannot afford to put forth a high grade of service. The relation between efficiency and wages and between wages and efficiency of labor is, therefore, very close and vital. It is, then, very necessary that the laborer receive in wages his full earnings. It is necessary that he be paid in full for the product which he produces, not only for the sake of the worker himself but also for the sake of the permanent productive power of the whole community. The employer of labor, who by one means or another, is able to keep for himself a part of that which labor produces, who does not pay in wages for full value received, harms not only the individual laborer to whom he pays such wages, but also the productive power of the very service which he himself buys. Such an employer in the long run suffers, though for the time he seems to gain.

A solution of our great and perplexing wage problem upon any other principle than that of the efficiency of labor at work under the existing conditions of its demand and supply, will

cause a decrease in the welfare not only of the individual laborer but also of his employer and the whole public. A solution upon any other principle can never be permanent. It does not recognize the universal principle of right and justice. The employer who by means of his advantageous position over labor does not pay wages upon the ground of the product made by the laborer, who does not pay for full value received, is to this extent a robber of labor; and as a robber he must sooner or later pay the penalties. On the other hand, if the laborer by means of unions, boycotts, and strikes collects in wages more than he produces, more than full value given, he also is a robber.

### QUESTIONS

(1) If a man's wages are doubled, is his welfare also doubled?

(2) A man receives in daily wages \$2; his friend receives only \$1. Why the difference? What regulates the wages of each?

(3) Is the price of labor regulated in the same way as are the prices of the ordinary commodities — as, for instance, cotton or corn?

(4) What do strength and skill have to do with wages?

(5) Labor is abundant. Will its wages be high?

## CHAPTER III

### DISTRIBUTION OF WEALTH AND WAGES; TRADES UNIONS AND FACTORY ACTS

**Importance of Combination to Labor.** — That the principle of combination possesses great productive power for labor, we have already shown. And this principle has been put into successful operation. The conviction that by uniting with each other individual laborers may make themselves much more efficient, and especially much more influential on the labor market, has now become exceedingly strong and active. The present problem of wages is, therefore, not simply one which the individual employer and the individual laborer can solve. It is more largely a problem of the corporation manager and the trade or labor union manager. Combination of laborers, though a working principle of but two centuries of age, is nevertheless now a great and vital economic, political, and social force. Combination in the management of a business is likewise both a new and a very powerful institution. Both of these organizations have, as we have seen, a great and

fundamental influence in the production of wealth. They have even greater influence in its distribution. It is our purpose in this connection to discuss some of the effects of combination among the laborers, both upon their wages and upon their general treatment at the hands of the employer. Later we shall consider the effects of combination in business management upon the pay of management.

**Unions: their Extent in England and the United States Compared.** — Trades unions, as these organizations of laborers or employees are called, have not by any means developed to the same extent in many different countries. In England, where they had their beginning, and where industrial life has had its greatest and highest development, their growth has been greatest. Great Britain, with only about one half of the population of the United States, has practically as many members in her trades unions as we have. Her unions have a membership of about two millions. But when our economic life is analyzed and compared with that of England, it is found that we have developed the higher forms of production to only about one half of the extent that England has. We are still very largely agricultural, and unions do not and really cannot exist among the laborers of our farms which are scattered far and wide. More

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than three fourths of our vast area still belongs to that group of production which is called agriculture. But the people of Great Britain are largely at work in that group of production which we call manufacture. From this point of view, trades unions have developed almost to the same degree in both countries.

**Unions: their Purposes and Methods.** — Under the head of labor as a producing agent, we have seen that the productive power of labor depends not only upon its supply and the demand for it, but also upon the individual's capacity and the method of employing his capacity. The union method is to employ this capacity in such a way as to increase both its inherent power and its ability to sell itself on the labor market. And this method is adopted for the most part by men of ordinary talent. One individual laborer of this class is profoundly ignorant of the other laborers of the same class, and with whom he is always competing on the labor market. He also knows exceedingly little of the great forces and problems of production. On the other hand, his whole economic situation and his ability to market his labor are usually very well known to the employer. This employer is oftentimes eager enough to take advantage of the individual laborer of this class of skill and to pay him, really to compel him to accept,

wages which are not at all an equivalent of the value he creates. The purposes and methods of the union are to improve the conditions of such a laborer and to enable him to demand higher wages and better conditions under which to work.

**Methods of the Unions in Time of Peace.**— There are two peaceful methods which have been employed by the unions for the accomplishment of these purposes: limiting the number of laborers, and collective bargaining.

(a) *Limit to Number in One Group of Work; Wages.*— The first of these methods places the individual laborer in a position of advantage in a really strategic position, so that he as an individual may secure higher wages for his labor when he sells it to the employer. This individual may for a time support himself out of the union's funds; and, not being compelled to sell his labor every day, he has a distinct point of advantage in bargaining for wages. By refusing to admit members, the union may limit the number of workers in a special field. It may also make this field of work exclusively unionized. By these acts the union enables the individual laborer to obtain higher wages. It keeps the supply of labor in certain fields at a small amount, and according to the great law of supply and demand the laborer sells

his services at a higher price. This method is, however, by no means so powerful as the one which we call collective bargaining.

(b) *Collective Bargaining; Wages.* — Even though the individual worker is by his union given a position of advantage in selling his services, still he is a very inefficient trader as compared with many of the clever and shrewd employers. Individual bargaining, though under the influence of a powerful union, is by no means so successful as that which is conducted by the most skilled manager of the union. By this latter method, the manager of the union makes with the employer all the bargains for wages. The manager, who is, as a rule, the most skilled and intelligent of all the members of the union, knows the labor market. He knows both the supply of the labor of a certain grade, and the demand for this very grade of labor. He also knows how to deal with men; and the prices which he secures for the labor that he sells are higher than those received under the method of individual bargaining. Collective bargaining is, therefore, a powerful method, provided the employer will deal with such a union manager. And the union, by reason of its common funds, which are frequently large, possesses a great instrument of power that can be used against the employer. If the employer refuses

to recognize the union manager, or if he will not pay for labor as large a price as the union manager demands, the laborers may cease to work for him; they can support themselves for a time out of the union funds. This situation unquestionably gives the union a very distinct point of advantage in selling its labor. .

**Standard of Wages and Work fixed by Union and Employer.** — Although the second method is by far the more powerful and successful, it is of necessity much more autocratic than is the first method. Collective bargaining means definite rules of wages, hours, and conditions of work. Something of an absolute standard of work and wages must be maintained. From one point of view, this more or less absolute standard takes from the individual laborer much of his personal liberty. But, from another point of view, this standard brings to him more liberty; his employer can no longer exercise such great control over him. This collective bargaining and this standard of work and wages may not be a hindrance to the employer. If the employer works with labor on a large scale, he is compelled to maintain such a standard of work and wages, whether he employs union or non-union laborers. Collective bargaining and standards may at times, however, become a great hindrance to the employer. If the demands of the union



manager for wages are greater than the laborer's services are really worth, if more value is demanded and received than the laborer produces, collective bargaining becomes not only a hindrance to the employer but also a burden to the consumer of the goods which he produces. But suppose that the employer refuses to grant the demands of the union manager, and rejects his standards of wages and conditions of work. What will the union do? It may propose or accept other standards, or it may resort to instruments of war.

**Methods of the Unions in Time of War.**—Of all these instruments of war the most powerful are the boycott and the strike.

(a) *Boycott; Wages.*—The laborers, non-union as well as union, may come to an agreement not to buy any kind of goods whatever of certain persons, who have in their stock the products of the employer against whom the laborers have a grievance. Such an agreement among non-union laborers is as a rule ineffective, but when it is made between the numerous members of a powerful union its influence is enormously great. The dealer's business begins to decrease. If the boycott continues for a long time, he must fail, as his trade with the laborers is vitally important. The dealer must save himself. He brings pressure to bear upon the individual or

corporation producer, from whom he buys a part of his goods, and against whom the laborers have a grievance; he ceases to buy his products. Whether this producer will yield to the demands of his laborers, in order to keep the trade of his retail dealers, depends upon the force of the boycott and upon the circumstances and disposition of the producer.

Such an instrument as this belongs to the demon of war, certainly not to the guardian spirit of peace. That it has a basis in sound ethics, few thinking people will admit. We believe that one individual has the perfect moral right to stop buying goods of any dealer or producer whenever he deems it best for his own interest. But, when he influences other individuals and causes them to make an agreement with him not to buy products of certain persons, he transgresses a vital principle of morals and of religion. But the boycott is an instrument of war, and the union managers make few attempts to defend it on moral or religious grounds. They make use of it as an instrument of expediency and power.

(b) *Strike; Wages.*—The boycott is, however, not the most powerful instrument of war with which labor fights. It is the strike which has become not only the most powerful instrument of industrial war but also one of the forces which disturb the modern economic realm to its very

foundation. The simple form of a strike is for the laborers to stop work, when their demands for wages and conditions of work are not granted by the employer. But this simple strike has little effect. The employer buys the services of other laborers, and the strikers must seek new fields of employment. The second phase of the strike now appears. The laborers not only stop work, but they also attempt to prevent the business manager from employing other laborers. In this attempt they bring great pressure against the employer. They, as consumers, declare a boycott against his products, and not infrequently do they raise the hand of destruction against his plant. They also bring great pressure against the non-union laborers who would take their places. Against these laborers the strikers make threats of violence and at times perform deeds of violence. The places of the strikers must not be filled; otherwise the strike almost completely fails. Even non-union strikers resort to pressure, and at times to violence, upon their employer and upon those laborers who would take the places of themselves, though their attempts are by no means as successful as those which are made by the powerful unions.

**Causes of Strikes and their Success.** — This great instrument of economic war has been resorted to for many different causes, and its results have

been exceedingly varied. The following statistics of the causes and successes of the strikes, which occurred in our own country during the last two decades of the nineteenth century, give us a graphic, if not indeed an interesting picture. Of all the strikes declared during these twenty years, 28.70 per cent were simply for higher wages, and of these strikes only 29.85 per cent failed entirely. For increase of wages and reduction of hours, there were 11.23 per cent, of which 16.43 per cent were complete failures; for reduction of hours simply there were 11.16 per cent, and of these strikes 41.91 per cent failed entirely. Against the reduction of wages, there were 7.17 per cent, and 54.32 per cent of these strikes failed completely. Out of sympathy for other strikes and to aid these strikes, there were 3.47 per cent, of which 72.64 per cent were complete failures. To prevent the employment of non-union laborers, to make the control of the union over the employer more complete, there were 2.34 per cent, and of these strikes 31.41 per cent failed entirely. There were also, during this period, strikes for many other causes, but the strikes for the causes which we have just mentioned constituted the larger part. Of all the strikes of this period about 60 per cent were for wages and hours of work, and upon the whole strikes for these causes were much more

successful than those for any other causes. But, of the strikes for all causes, 33.5 per cent of those ordered by union laborers failed and 55.4 per cent of those ordered by non-union laborers failed.

**Cost of Strikes.** — During these twenty years, 1881-1900, there occurred the great number of 23,700 strikes and lockouts,<sup>1</sup> and these involved no less than 6,610,000 workers. The loss to the laborers alone, as far as it can be estimated in wages, — and their wages constituted only a part of their total loss, — amounted to the enormous sum of \$306,683,000. And the employers suffered, by the stoppage of their factories and plants, and by the destruction of their property, not less than \$142,659,000. A total loss of \$449,342,000! These strikes and lockouts entailed a great loss not only upon the laborer and his employer, but also upon the consumer of the products of these workers. Much of this great loss to the laborer and the employer was shifted upon the shoulders of the consumer. But this great financial loss to the laborer, the employer, and the public, is by no means all of the loss. These strikes and lockouts also brought into our life disturbances, demoralization, and bitter feelings, the cost of which no one can ever calculate. American economic, political, and

<sup>1</sup> Employers closed their mills, etc., in order to forestall strikes.

social life has been disturbed by these industrial wars to its very foundation.

**Ethics of Strikes.**— Can such wars be defended by sound principles of morals? We believe that the individual laborer has the perfect legal and moral right to stop work, whenever he and his employer cannot agree upon wages, and the conditions of work. The owner of ordinary commodities most certainly has the right to hold his goods until he can sell them for the price which he desires, and the laborer is in a large sense such an owner. Individual workers likewise may agree to stop work, whenever the employer does not pay them a sufficient price for their services. But this simple form of a strike is of very little effect, and it is now rarely ever used. The laborers agree and pledge themselves not only to stop work, suddenly as a rule, but also to employ every possible means to prevent the employer from filling their places. These means are employed against the business manager, and also against the non-union laborers who would take the places of the strikers. The strikers as consumers boycott the employer's products, and as strikers they oftentimes destroy his property. Against the workers who are about to take their places, they use intimidation, threats, and actual violence. Can such a form of the strike as this be defended in sound

morals and ethics? We cannot think so. And the managers of such a strike make few serious attempts to defend its principles. They appreciate its power and employ it as a means of war. They also not infrequently declare that the moral standards which are accepted in times of peace cannot apply in times of war. They are working primarily for results which will benefit themselves in higher wages and shorter hours; they care less for the principle involved. They well know that at times the employer does not deal with them on the principle of sound morals, and that he drives hard bargains with the poor and ignorant worker. They should likewise know, and thoroughly appreciate the fact, that wrong conduct on the part of an occasional employer affords no moral defense whatever for their own acts of wrong.

For either employer or laborer to resort to the use of expedients, which have no foundation in sound ethics but which bring temporary benefits to themselves, usually at the cost of others, is for a people to degrade itself. For any man, it makes no difference what his economic position may be, it makes no difference whether he be a simple toiler or a great employer, to use such warlike instruments for his own advantage alone, is to divorce economic activity and effort from ethics and religion.

**Methods of Relief: to do away with Boycotts and Strikes.** — To change such an acute and unsound situation is now commanding the most serious attention of the business man, the statesman, the teacher, and the preacher. This gigantic struggle between the laborer and the employer, between labor and capital, as it is popularly though incorrectly called, is unquestionably our greatest and most vital problem. It has come as a result of a lack of adjustment between that agent of production which we call business management and that other agent called labor. And the chief point of conflict between these two agents of production is not in reference to the production of certain products, but in reference to their distribution. The fundamental reason for this war is, we believe, the fact that the business manager has not paid to labor a sufficiently high price; he has not distributed unto labor all the value that labor has created. Though the union manager is very largely responsible for some of the worst aspects of this terrible industrial war, the trade or labor union itself came into existence because labor was not receiving its due earnings. Every solution of this very vital and grave problem, it makes no difference what the special form of the solution may be, must be based upon the fact that both parties are in their conduct partly



in the right and partly in the wrong. The fault is not entirely with the laborers or with the union of laborers. Nor is it wholly with the business manager or with the union of business managers. Both parties are vitally concerned, and both have sinned and violated the great ethical and religious principles upon which all economic conduct should be based. The form of the solution must, therefore, be of a twofold kind, — one in which both parties work together, — and it must be based upon the great moral principles of man and of God.

(a) *Conciliation ; Wages.* — The wage problem, which always exists between the employer and the laborer, must then be solved along the line of conciliation ; and this conciliation must be worked out under the powerful influence of public opinion, and under a certain amount of governmental regulation. For conciliation to be at all easily effected, each party must maintain a special and permanent board, whose purpose it is to consider all the points in dispute, or a single board composed of an equal representation from each party. These boards should be not only permanent, but also composed of the very ablest and best men. But this form of the solution assumes that the laborer, as well as the employer, is organized into some form of a union. Such boards are now

in existence in many parts of the world where industrial war occurs, and the results of their operation have been for the most part successful. These boards of conciliation do not, however, possess the power to act finally for either the laborer or the employer; they can only render assistance in adjusting and pacifying the parties who are in dispute. But suppose that conciliation fails. Is there no other solution of this most vital problem?

(b) *Arbitration; Wages.*— In case the parties in conflict cannot be conciliated among themselves and through boards of conciliation, the points in dispute may be presented to an arbitration board which represents both parties. The purpose of this board, as that of the conciliation boards, is to adjust and compromise matters and consequently to prevent such an industrial disturbance as a boycott or a strike.

The success of this arbitration depends, of necessity, upon the willingness of both parties to accept the decisions of the board. Voluntary arbitration, or that which is left to the discretion of both parties, has so often failed as to cast much discredit upon it. Shall we have compulsory arbitration? The chief reasons which have been assigned in favor of compulsory arbitration are that the problems to be solved are most important and vital and that their solution

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by the parties in dispute has for the most part been a signal failure. The laborer and the employer unquestionably have so far failed in their attempts to solve this aggravating and overwhelming problem. And whether these parties may ever work out a solution which will in the main be satisfactory, or whether the state can most easily and efficiently solve this problem, is a highly debatable proposition. Arbitration decisions by the state would of course be binding upon both parties, while those made by the parties themselves will always be voluntary. That the state shall put an end to a fight between two individuals, that the state shall, by means of its police, courts, and army, keep the peace and order of the whole community, has long been recognized as the proper function of the state. Why should the state not also compel two parties, laborers and employers, who are waging a great and disastrous economic war to come to terms of peace?

(c) *Legal Incorporation of the Unions and Suits for Damage.*— Boards of voluntary conciliation and arbitration have indeed accomplished something. Compulsory conciliation and arbitration, in a few of the Australian states, have likewise achieved more or less of success. That the American state will put into operation a system of compulsory arbitration, we do

not expect, at least within the near future. But though our government may never attempt to put an end to great industrial wars by means of compulsory arbitration, it may soon require that unions of laborers incorporate themselves according to law, and that they act according to such legal rights as the state sees fit to grant to them. The state has the right to require organizations of business managers to incorporate and thereby become legal bodies. Why may it not make the same requirement of trade or labor organizations? This would give the unions the legal power to bring suit against employers for breach of contract or for damages. It would also give them a position of much greater respect and dignity. And such a legal requirement would give to the employer, to the other laborers, and to the public, an instrument which could be used with great effect against the unions for the acts of violence and destruction which their members commit. There would then be no question whatever about the right of injured persons to bring suit against the union's reserve funds. Legal incorporation would, therefore, compel the managers to exercise greater discretion in their own acts and also greater control over the individual members of their unions. Such a requirement would, however, greatly diminish the power of the union. When its funds

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have been taken by the courts to pay damages, one of its greatest means of power and influence has been taken from the union. Without such a reserve fund the laborers could scarcely afford to go on a strike.

Such a requirement by the state has, however, not yet been made. Is there now no legal means whereby those who suffer from the more violent acts of the unionists may have redress? Until very recent years it has been assumed by the courts of England and of the United States that, unless the union is incorporated by law, no suits for damages can be brought against it. But such an assumption has now been set aside. It was in 1901 that the highest court of England declared, in the now famous decision known as the Taff Vale case, that, though the union is not incorporated by a charter from the state, it is nevertheless liable in damages for the acts of its agents. The effect of such a decision has been great. Courts elsewhere are now accepting the principle of the English decision and are granting damages against unions. And the result may finally be that unions will voluntarily ask for a legal incorporation.

**General Results of Trades Unions; Wages.**— We have now considered the trades unions from the point of view of their causes, aims,

and purposes, from the point of view of their methods in time of peace and war, from the point of view of the great and profound industrial struggle which they have precipitated, and finally from the point of view of the settlement of this vital conflict. What are some of the results which have accrued from all of this work, agitation, and struggle? Let us make an examination of the life and experiences of the unions. And we find that this life, though it has spent much of its force in fierce conflict and bitter feeling, reveals itself as possessed of many strong and admirable points. The historical testimony is most strongly to the effect that trade or labor unions, in spite of their abuses, have brought good into the world. It declares to us in unmistakable evidence that they have elevated the position and improved the productive power of the laborer, and that they have raised the general standard of wages and conditions of work, not only for their own members but also for non-union laborers. And the testimony which was taken by the United States Industrial Commission, 1898-1900, is overwhelmingly to the point that the economic conditions of the union members have been greatly improved as a result of the unions, in spite of the fact that their methods and practices have at times been violent and ethically unsound. Unions have made it possible

for the laborers to work shorter hours and receive higher wages, and have thereby added to their productive power and welfare. While they have in times of their wars brought great loss and disturbance to themselves and to the whole society in which they put forth their activity, while they have created bitter and hostile feelings and at times displayed intense selfishness, the unions have not upon the whole failed in their mission and work. They have caused many a selfish employer to deal with his laborers in a more honest way; they have compelled him to pay in wages for the value which labor produces for him. Their economic results have, therefore, for the most part been for the wealth and welfare of the toilers of ordinary talent. And their work for this class of laborers, though it has oftentimes been wrought in injustice and in wrath, has not by any means wholly failed. The common toiler has received benefit, and in consequence the whole economic world has been improved.

**Factory Acts and Wages.** — We have already said that labor, in consequence of its peculiarities as a commodity to be bought and sold, is oftentimes placed in a position of disadvantage. The employer of labor, rather than the common laborer, has the position of advantage on the labor market, and not infrequently does this

employer make use of his advantageous position to drive a hard bargain with his laborers. This selfish conduct on the part of the employer has, as we have said, had much to do in bringing the union of laborers into existence and in creating in this union an attitude of hostility. This selfish tendency on the part of the employer has also had much influence in the creation of a great body of economic laws called the factory acts. The state has been compelled to protect the weak and ignorant laborer, especially the child and the woman, from the greed of the employer. These factory acts belong to the modern period. They belong to the time when the employer uses many laborers and works them in factories and mills. Though a modern institution of only a century in age, the factory act to-day prevails over an area larger than that covered by the public policeman. It is almost coextensive with the system of education maintained by the state. And though a new institution, the factory act is truly one of the world's greatest achievements. It has profoundly influenced the productive power of labor and has added to the world's wealth and welfare.

**Children and Women in Factories and Mills. —** The factory act provides protection, by the state, to the children and women who toil in factories and workshops. The state affords protection



to those who are not able to protect themselves against the demands of the employers, and to those who have not the foresight to save their little strength and energy for future and greater uses. Modern legislation in reference to the hours of work for adults, and in reference to wages for all kinds and classes of laborers has been exceedingly slight. But legislation in reference to the hours of work of the women and children who toil in factories has, on the other hand, been very extensive and complex. This legislation looks toward the promotion of the health and strength of the child. It will not permit the manufacturer to employ the child of from twelve to eighteen years of age for long hours or under unwholesome or dangerous conditions. It will not allow the child under twelve years of age to work at all in such a place. The state thus protects the child until his strength and energy have become great enough for him to protect himself, and this protection on the part of the state is absolutely necessary. That people which permits the health and energy of its children to be sapped is truly destroying itself. That people which causes or allows its children to toil during their early years, perhaps under fourteen years of age, when their sole purpose should be to build up strong and vigorous bodies and

intelligent brains, makes a vital thrust at its own life and deprives itself of much productive power and general welfare.

This legislation looks also to the protection of the woman who toils in the factories and mills. It does not permit her to work for long hours and under unwholesome conditions. It does not permit her to work at all during two weeks before childbirth and for a month afterwards. And when the state protects the women who toil in the factories and mills, it is promoting the health and strength of both present and future generations, and is thereby adding to its productive power and to its general welfare.

It is England which has taken the world's lead in all of this legislation, and for her its results have been marvelously great. Since 1860, as the American states have become more and more of the manufacturing type, the factory act of England has been adopted and put into operation by us. Some of our states have been slow to make such a move, and the factory owner has oftentimes shown great hostility to such legislation, but the movement is unquestionably going forward. Within a few more years every American state, in which is located a factory, will certainly enact such laws.

QUESTIONS

- (1) Do you think that trades unions benefit the laborer and the public?
- (2) Would you boycott your merchant?
- (3) Would you go on a strike?
- (4) Can boycotts and strikes be avoided? By what means?
- (5) Do you think that a child of twelve years of age should be allowed by the state to work in a factory or mill?

## CHAPTER IV

### DISTRIBUTION OF WEALTH AND RENT

**Rent regulated by the Inherent Power of Land at work under its Conditions of Supply and Demand.**

—We have already considered the part which land plays in the production of wealth. But what of land in the distribution of wealth? What of rent? According to our standard of distribution, rent is the earning of the inherent productive power of land at work under the conditions of the supply of land as compared with the demand for it. Land, as we understand it as a producing agent, should be considered as an ordinary product or commodity, which is bought and sold. It sells for a price just as does labor, raw cotton, or railway service; and the price of any of these commodities depends not only upon its inherent properties but also upon the demand for it. The business manager must pay a price for the use of land, as well as for the use of labor or capital. The fact that he himself at times owns the land which he uses does not at all

eliminate the price which he pays for its use. He may also own his labor or his capital, but in either case he must pay a price for their services.

**Productive Powers of Land; how Estimated.** — And the productive power of this agent is calculated, as is the value of any ordinary commodity or that of labor, on the margin. The employer of land experiments with a unit of it, say an acre or so many square feet, for various uses. He also experiments with several units of it for the very same use. By means of these experiments he can estimate with a fair degree of accuracy the power which land possesses to produce utilities. Every acre of land has some utilities, possesses some productive power for any and all uses, unless it exists in such great abundance that there is no demand whatever for it and that no effort has to be put forth in order to obtain it. For one use it may produce utilities or values which are equal to, let us say, 100 cents, while for other uses it may produce utilities equal to 99 or 101 cents. And the business manager will as a rule employ the unit of his land, as he does the unit of his labor or capital, for that use in which it has the greatest possible productive power or the greatest earning capacity. He will use it in that field of production in which it will bring him 101

cents, rather than in the field in which it will earn only 99 or 100 cents.

**Efficiency of Land and Rent.** — The productive power of land, therefore, depends largely upon (1) *the uses which are made of it*. But the uses for which it is employed are in turn largely dependent upon (2) *its inherent properties*, or upon (3) *its situation in the economic society*. Land may be employed for agricultural, mining, building, or transportation uses. For the most part, it is employed in that field of production in which it has the greatest productive power and earns the maximum of rent.

We have already seen, under the head of land as a producing agent, that its inherent productive properties for agricultural purposes are those of its various chemical compounds and agents, of its mechanical conditions of looseness, and of its heat, light, and moisture. But the chemical and mechanical properties are the resultant of both nature and man. To some units of land it is nature which has contributed most of these properties, while in other units man by the process of fertilizing and tillage has added much. The earning power of these units depends not only upon what nature and man have together given to the soil, but also upon the kind of crop which is planted upon it. To sow wheat upon a soil

which possesses in great abundance the properties required for cotton culture, is to make a non-economical use of the inherent properties of the soil, and the rent is necessarily small. For such a use this soil possesses no great productive power. To plant this soil in cotton causes it, on the other hand, to bring forth products of much greater value. For agricultural uses the earnings of units of land are, therefore, largely regulated by their efficiency or by their inherent productive properties.

Lands may be used for mining instead of tillage, but the rent of this use is largely regulated by the productive power of the mineral deposits. And this power is the resultant of their inherent properties and of their supply as compared with the demand for them. The rent of the land used for building or transportation purposes is likewise fundamentally regulated by its productive power, but its productive properties for these uses consist solely of its situation and space extension.

In land for all the uses which are made of it, and especially for building and transportation purposes, situation is a very important element; and its productive power is, therefore, greatly influenced by this element. To this element of productivity nature adds but little, and man as an individual also adds but little. This situation

property of land is for the most part created by many individuals collecting together in their economic activity. Let us illustrate this point. A small lot of ground in New York City earns in annual rent \$10,000. A lot, of exactly the same size and possessed of exactly the same inherent qualities, located in the rural sections of the South or West earns in annual rent but \$10. In these two cases, and they are by no means exceptional, the earning power is wholly dependent upon the situation. The great productive power of the land in the first illustration is largely due to the fact that the American people have made a few square miles on Manhattan Island the center of all their economic life. While nature has given to these few acres a position of great geographical and economic advantage, it is the American people in their economic dealings with each other, and with those of Europe, who are the real creators of this wonderful productive power. To the same number of acres located in middle North Carolina, nature has given no position of advantage whatever, and the American economic activity has given no great crowds of men and women. The extraordinarily great rent in one place and the very small rent in the other are, however, both fundamentally regulated by the same law. They are regulated by the law of the productive power of land. The use of the acre which is located in



New York City is worth in commercial value one thousand times as much as is the use of the acre in North Carolina.

**Supply of Land and Rent.** — We have already said that the productive power of land, as that of all the other agents of production, depends not only upon its own inherent properties but also upon its supply as compared with the demand for it. Properties which exist in such great abundance that no effort need be put forth in order to obtain them have, as we have said, no value whatever. They are not utilities in an economic sense, and consequently do not exchange between man and man; they are so abundant as to be common to all. For such properties no price is offered and none is demanded. In an economic sense they possess no productive power. But such properties do not now belong to land or to any of the other agents of production.

The supply of land is, therefore, an element in its productive power and in the earnings of this power. The supply of land, as well as its inherent properties, regulates rent or the price at which the use of land sells, and in the same general way as the supply of labor and capital regulates wages and interest. The \$10,000 annual rent of a small unit of land located in New York City is largely due to the scarcity of land on Manhattan Island, and especially to the scarcity of

land in a certain spot, say on lower Broadway. The supply of such lots is exceedingly small as compared with the demand which millions of people create for it. The four millions of people who live in Greater New York City have much to do in creating this great productive power in the land, but their number is small when compared with the many millions throughout the American continent and the other continents of the world who look to New York as the center of their economic life. The man in South Africa who buys American products indirectly creates something of a demand for these few acres of New York lands. The California or Florida fruit grower indirectly creates more of a demand; he sends his fruits to New York for distribution to many parts of the United States and for foreign sale. Every soul who sells or buys goods through New York City, directly or indirectly, — and most Americans and many foreigners do, — adds to the demand for the lands of Manhattan Island.

And in the rent of the lot which is located hundreds of miles from New York City, where the annual rent is but \$10, the supply of land as compared with the demand for it also plays a great part. This rent, as well as the \$10,000 rent, is the result of the inherent properties of the land and the demand for it. In creating the properties which earn, in the shape of rent, only \$10,

society has done but little. But in creating the powers which earn \$10,000, society has done very much. All productive power, as we have seen, is the product of the individual man, of nature and her forces, and of the larger body of individuals which we call society. And land, in reference to the source of its productive power, is not different from labor, capital, or business management; nor is it essentially different from all the ordinary commodities. They are all fundamentally given their productive power and value by virtue of the number of people who have wants and demands for them.

There is, however, one point in which rent differs from wages, interest, or the pay of business management. We have seen that with the growth of population wages tend to decrease, unless the growth of labor is attended by an equal or greater growth in the demand for it, and at least a corresponding growth in wealth. This same tendency is equally true in interest. As capital increases, its earnings or productive power per dollar decrease, unless there is at the same time an equally great increase in the demand for it. This same tendency is also true of the pay of business management. But while the other agents tend to diminish per unit in their productive power and earnings as economic life goes upward and onward, land tends to increase

in its productive power and its rent as population, capital, and business management increase. Rent is now in the main much higher per unit of land than it was for the same land twenty-five years ago. And this is true not only in our own country, but also among every other progressive people. The supply of land is becoming more and more limited, while that of the other agents is becoming greater and greater; and this tendency has a profound influence upon rent, wages, interest, and the pay of business management.

**"Single Tax" Doctrine and Rent.**— This tendency of land to increase in its productive power and its rent, in consequence of the growth of population and economic activity, has called forth a great amount of discussion of the rent problem. It has also been the chief cause of the foundation of a very famous and influential doctrine of taxation — "single tax." This "single tax" doctrine has meant slightly different things at different times. As we use it, it means that there should be but one tax, and that levied on the so-called "unearned increment" in the value of land. It is claimed that the increase in the productive power and rent of land is due very largely to society, not to the individual's activity and effort; and that this increase, which is called the "unearned increment" of value, belongs to the whole society, not to

the individual. Such a claim is in part correct, but the same claim should likewise be made in reference to the earnings of any other agent or to the price of any other commodity. As we have already seen, production along any line is largely a process in which the whole economic society is involved. The individual produces only a part of the value which exists in every conceivable form of goods; society produces a part of the value which each of these forms possesses. There is, therefore, in reality a so-called "unearned increment" in every value. There is an "unearned increment" in rent, wages, interest, and the pay of business management, in the price of cotton, corn, and electric or gas services, and in the price of any other commodity. The amount of this increase of value which society produces varies greatly. It depends largely upon the special field of production and also upon its situation. And the individual is justly entitled to only a part of these increases in values; the collective body which we call society is entitled to a part of them. Both the individual and the society are their producers. It follows, therefore, that society has no moral or economic right to take in taxes or in other shapes the increase which it has made in land values, unless it also takes the increase which it has made in all other values.

**Socialism and Rent.**—While the “single tax” and other reformers would take for the state the entire increment which society adds to land values, the socialist demands that the state become the sole owner of all the land and the capital. Such a scheme of production we have already considered from the point of view of its productive power; and, if it should ever be realized, the problems of rent and interest would entirely disappear. The socialist does not believe in rent and interest, because he does not believe in the justice of the private ownership of land and capital. To his mind individual ownership of these agents of production is thoroughly unsound, for the individual does not and cannot create these values. Society should own these agents or instruments of production because society creates their values. To his mind they are instruments of oppression, rather than instruments of production, when legally owned by individuals.

### QUESTIONS

- (1) One acre of land rents for \$10. Another acre rents for \$5000. What factors account for the difference?
- (2) Upon what does the rental value of land depend?

## CHAPTER V

### DISTRIBUTION OF WEALTH AND INTEREST

**Interest the Earning of Capital.** — The source of interest, as that of wages and rent, is in the power of an agent to produce wealth. The productive power of labor is the chief source of wages, and that of land the chief source of rent. The source of interest is likewise in the capacity of capital to produce utilities or values. A part of every product of production, therefore, belongs to wages, a part to rent, a part to interest, and finally a part to the pay of business management.

**Interest regulated by the Inherent Power of Capital at work under its Conditions of Supply and Demand.** — Capital when borrowed by the employer is paid interest according to contract, and in this respect it is like labor and land. But what ultimately regulates the rate of this interest? What regulates the interest of capital, whether its use is hired by an employer or whether its use is employed by the owner? According to our standard of distribution, the use of capital is paid for according to its pro-

ductive power, just as is the use of labor or land. And the employer or owner of capital, by experimentation and calculation, can estimate with a fair degree of accuracy this productive power. He can find out how much a certain unit of capital, say \$100, can produce in a year's time when it is embodied in various tools, instruments, and forms. The business world, therefore, knows in the main what the productive power of capital is; and this power becomes the general standard of its pay or interest. This productive power depends, of course, upon the form of production in which the capital is employed, upon its inherent properties, and also upon the supply of capital as compared with the demand for it. Capital is, therefore, a commodity, the use of which is bought and sold on the market for a price. And its price depends upon the properties of its form and upon their supply and demand.

**Efficiency of Capital and Interest.** — It follows, therefore, that there exists a very close and vital relation between the efficiency of capital and interest. The most important source of interest is the inherent power of capital. But this inherent power of capital, and interest, are, as we have already said, profoundly influenced by the supply of the capital which exists in each group of production as compared with



the demand for capital in that very group. During one season the capital which is invested in cotton culture may earn 8 per cent interest, while during another season it may not earn more than 6 per cent. At one time capital produces more values when invested in farming lands, at another time in city lands and houses, at another time in manufacturing of one type or another, at another time in mining, and at still another time in railway or steamship transportation.

**Supply of Capital and Interest.** — The market rate of interest is, therefore, due in part to the supply of capital, as well as to the inherent productive properties of the special forms into which capital is embodied. Capital can to-day be borrowed in New York City at 4 per cent interest, while in many parts of the West and South its present market rate is 6 per cent. Why this difference in market rate? In New York capital is abundant as compared with the other agents of production. Its supply is very large as compared with the demand for it, and its productive power per unit, per \$100, is consequently smaller. In the South or West the other agents of production are relatively more abundant than capital. There capital is small in supply as compared with the demand for it, and in consequence its productive power

is greater. But the difference in supply and productive power does not explain all of the difference which exists in the market rate. This does not entirely explain a difference of 2 per cent.

**Security of Economic Conditions and Interest. —**

In the loaning of the use of capital, or in the selling of its productive power, there is more or less of risk. To be sure, it is usually loaned under the ordinary safeguards, but these are not absolutely secure. In investing capital in certain fields of production and in certain locations, there are great risks. The enterprise may succeed and pay a high rate of interest. It may fail, and the investor may lose not only his interest but also a part, if not all, of his principal. An equal quantity of capital at work under the same conditions of supply and demand tends to produce exactly the same interest, and the market rate always tends under such conditions to be the same, provided the conditions of economic security are equal. The difference in a market rate of 4 per cent in New York City and that of 6 per cent in Tennessee is in part due to the difference which exists in the conditions of the demand and supply of the capital in the two places, and also in part to the fact that economic life is more secure in New York City than it is in Tennessee. Let us consider another illustration. During periods in

the middle ages capital was loaned for as much as 40 per cent interest. This enormous rate was charged partly because of the scarcity of capital, but to a large extent because of the chaotic conditions of economic life. In many cases neither interest nor principal was ever paid.

**Legislation and Interest.** — We have seen that the state, by means of a great body of economic legislation called the factory acts, has to an extent indirectly influenced wages. It has also at times attempted in a direct way to regulate the rate of wages, but such attempts have for the most part failed. For wages, as for the prices of all other services or goods, the great forces of demand and supply, of consumption and production, are the real regulators. Because of these fundamental economic forces, wages change too often for the state to accomplish much in their regulation. And for the most part the modern state allows the distribution of wealth into wages, rent, and the pay of business management to work itself out without restrictions. But in the distribution of wealth into interest many of our states take a greater or less part. In many of the states we have a maximum legal rate of interest, from 5 per cent to 6 per cent, in the case of money loans. Over rates on loans below the one established by law the state has, of course, no influence. It likewise makes no attempts to regulate the earnings

of the capital which is invested in the various forms of production. One hundred per cent may be received from such an investment, and the state offers no objection whatever. But for an individual or a corporation to loan capital in the form of money at a rate which is greater than the one established by law, is for that person or corporation to commit an illegal act.

This method of state regulation of the rate of interest on money loaned has long been in operation, but it has exercised in the main very little influence upon the market rate of interest. The reason of such legislation is likewise very old. Capital in the form of money has always been loaned in part to the poor and the unfortunate. And the state, in establishing a maximum rate at which it can be loaned, is attempting to protect such individuals from the greedy demands of money lenders. In so doing the state is rendering society a service, though by such an act it does not seriously affect the market rate of interest. Interest, like the prices of all other commodities, is in the main regulated by mighty economic forces, over which such a legal rate has comparatively slight influence. The inherent power of capital, under the conditions of its demand and supply, is the great and fundamental regulator of interest. The state may protect the unfortunate from paying on money loans a rate

which is higher than the market rate of interest, but it cannot by any method whatever really regulate this market rate.

**Socialism and Interest.**—As we have already said, there is no problem of interest under a socialistic régime, for capital as a producing agent all belongs to the socialistic state, and the individual has its use without cost. Under such a system capital would, however, play a very important part in the production of wealth. It would enable the individual to produce more products than he could possibly produce by means of his own energy alone. But in the distribution of these products all would go to the individual except that which would be necessary to replace the wear and tear of capital. Under such a system capital as a producing agent would play a great part, but capital as an earner of interest for the owner of it would entirely disappear.

### QUESTIONS

- (1) Do you think it right to demand and receive interest on your capital ?
- (2) Money is loaned in New York City at 4 per cent, and in North Carolina at 6 per cent. Why the difference ?
- (3) What is it that fundamentally regulates the rate of interest ?
- (4) Do you think that the state should fix a maximum rate of interest, say 6 per cent ?

## CHAPTER VI

### DISTRIBUTION OF WEALTH: PAY OF BUSINESS MANAGEMENT AND PROFITS

#### *A. Management and its Pay*

**Pay of Management: the Earning of Management.** —The great productive power which business management possesses, we have already considered under the head of production. We have seen that, without this agent in some form or other, there can be little or no production. With it and the other agents there can be production upon a very great scale. In every one of the almost countless products there is, therefore, a part which has been produced by this agent, and there are also parts which have been produced by labor, land, and capital. A part of every price, then, as justly belongs to management, as do the other parts belong to the other agents of production. The pay of management, just as the pay of all the other agents, should be according to its productive power. And the productive power of this agent can be calculated and estimated by the business world just as accurately as can that of any of the other agents.

**Pay of Management regulated by its Inherent Power at work under its Conditions of Supply and Demand.** — The price at which business management sells on the market depends both upon its inherent properties and also upon its supply as compared with the demand for it. Management, then, like all the other agents and other commodities, sells because of its inherent value and because of the prevailing conditions of its market.

**Efficiency of Management and Pay of Management.** — But of the forces which regulate the earnings of management, its own inherent productive properties are certainly the most important, though the conditions under which it sells have much influence upon its price; the conditions under which it works have much to do with the product which it makes. Managing ability, as well as the other agents, is divided into almost countless fields, groups, and subgroups of work. Let us consider the earnings of management in some of these groups. In one group management is paid per unit, per man let us say, the annual amount of \$1000, while in another group it is paid \$75,000 for its earnings. Such great difference in the pay of management is popularly supposed to be unfair and unjust. In the minds of many people no one man by his managing ability can within a year produce a

product which sells on the market for at least \$75,000. But this product, as we have said, can be estimated and calculated with considerable accuracy, and the salary paid to the business manager is in the main regulated by the amount and quality of that product which he makes. There are, to be sure, business managers who do not and cannot earn within a year this enormous amount of wealth, and who are still paid this great salary, but they are exceedingly few. While there are exceptions to the general tendency, still the pay of business management is for the most part regulated by its efficiency. While there are, indeed, many men who cannot by their management produce an annual product which sells for more than \$100, there are others who can produce an annual product valued on the market at \$1000, \$10,000, \$50,000, or even \$75,000.

But the efficiency of management depends largely upon the special group of production and upon the extent of its work. During the times when business organizations were exceedingly small, when no organization carried on an annual business amounting to more than a few thousand dollars, it was impossible for the manager to produce a product of such great value. His task was then small as compared with what it often is to-day. He now assumes the



responsibility of managing interests and agents whose annual product amounts to millions and millions of dollars. In the past his interests did not extend beyond the bounds of a single city or state. To-day the manager must look after interests which cover every corner of a great country and to an extent the whole world. He must manage a great amount of labor, land, and capital, as well as the demands of millions of consumers. The productive power of management is, therefore, the regulator of its pay. But this productive power depends upon its supply, as well as upon its inherent properties.

**Supply of Management and Pay of Management.** — We pay the enormous annual salary of \$75,000, not only because of the great inherent power of the individual manager, but also because the individuals who possess the inherent qualities necessary for such management are exceedingly few. The \$1000 manager is likewise under the conditions of supply as compared with demand. In the case of the \$75,000 manager there is a relative scarcity, while in the case of the \$1000 manager the supply is relatively great. For each field, group, or subgroup of business organization and management there is a supply of this ability. For the lower groups and subgroups the supply of managing ability is, as a rule, large as compared

with the demand for it, and the price is consequently small. But for the higher groups and subgroups the supply of managing ability is small, and the price is, therefore, great.

To manage the greatest of our manufacturing and transportation corporations, requires not only great talent but also extraordinary talent. To manage these great industrial organizations, with their complex interests extending throughout our great continent and to the uttermost parts of the globe, requires talent as great as was required of a Napoleon, a Washington, a Lincoln, a Lee, or a Grant. And that such talent does not exist in great abundance needs no detailed proof. The world knows it, and it has learned this truth through bitter experience. The man who possesses great powers of leadership, whether they be along the line of government, war, religion, education, or the industries, lives nowhere in great numbers. As economic civilization goes upward and onward, we may expect to see an increase in the quantity of this extraordinary talent, but we shall also see a great increase in the demand for it.

### *B. Management and Profits*

Profits or Losses, Reasons for. — We have seen, under the head of Section III, that in many prices there is an element of profits, as well as

wages, rent, interest, and the pay of business management. Management, as we know, is the agent to which these profits go in the first case. But it is this very agent which assumes the risks and responsibility of supplying the demand for certain products. This demand, as we have already seen, is not an absolutely definite quantity, and the manager may produce too much or too little of the products. The manager must also pay wages, rent, and interest to the other agents; and these, just as the prices of all the ordinary commodities, fluctuate in amount. The cost of producing any unit of goods, let us say a yard of a certain grade of cotton fabric, can never be exactly estimated. It may be more than the manager's estimate. It may be less. The price at which the manager can afford to sell his products to the consumer cannot, therefore, be exactly calculated. Nor can the manager calculate the exact price which the consumer will be willing to pay. It is he who must bear, in the first instance, the loss, in case he is compelled to sell his products at a price which is smaller than their cost of production. It is he who likewise receives, in the first instance, the profits, if his products sell for a price which is greater than their cost of production.

**The Manager bears in Part the Losses and receives in Part the Profits.** — The business man-

ager is fairly entitled to all of the earnings of his management, to all of its specific products. Likewise labor, land, and capital are entitled to their specific products. If the manager is compelled by the conditions of the demand and supply of his products to sell them at a price which is lower than their cost, he has the perfect economic and moral right to shift a part of this loss to the other agents. But he has, as a rule, contracted with these agents for a certain price, and consequently he must pay their part, whether he sells his products above or below cost. The manager will not, however, produce more products, unless he can sell them for a higher price, or unless he can secure the services of the other agents at a lower price. He will, therefore, shift more or less of the loss to the other agents.

What of the profits which come to him? According to our standard of distribution, the manager is entitled to his own earnings. He is also entitled to all the cost of the insurance of his goods against loss or destruction. Can he keep the profits to himself alone? Can he keep all of the price which is left after he pays wages, rent, and interest, according to his contract, and after he pays himself for his own productive power, as well as for all the many risks which he assumes? We believe that the

business manager has no right to all of these profits. A part of them belongs to the other agents which help to produce his goods, and a part to the consumer of his goods. But can the manager keep all these profits to himself, in spite of the fact that they do not rightly belong to him? In case he should retire from business at once after receiving these profits he could indeed keep to himself alone all of these profits. But the business manager after making profits, above paying himself for his managing ability as well as all of his risks, usually does not retire from business. In fact he is driven on to greater activity and effort, in order to make still greater profits. It is the manager who fails to make profits that is willing to retire. And this very desire to make more profits causes the manager to divide a part of his profits with the consumer. He sells him goods at a lower price, in order to sell him goods in greater quantities. This desire for greater profits also causes the manager to pay higher wages, rent, and interest. He must do this, in order to have the use of greater quantities of the other agents, and in order to produce more goods. The average business manager is, therefore, compelled by his very desire for more wealth to divide a part of his profits among others. He may, and does at times, distribute only a small part of his profits

to the other agents and to the consumer. He may, and does at times, use his position of advantage to pay the other agents, especially ordinary labor, less than they produce. The manager may also at times compel the consumer to pay a price which is greater than the normal value of the goods.

*C. Monopoly Management; its Pay and Profits*

**Monopoly Management as a Producer.** — Under Section II, we have considered the monopolist as a producer of wealth. We have seen that, in the production of certain manufactured goods and of transportation services, the great corporation, which is possessed of practical monopoly powers and privileges, is a powerful producing agent. Such a corporation is also a mighty factor in the distribution of wealth. The greater and more powerful management is as a producing agent, the greater and more powerful is this factor in the distribution of wealth into wages, rent, interest, pay of management, and profits. Likewise the greater the organization of management, the greater is its influence over the prices which the consumer pays.

**Large Monopoly Producers and their Great Profits.** — The people of the United States have within the last quarter of a century witnessed a stronger tendency to concentration and combination in

business management than has any other people in the history of the entire world. The gigantic corporation has entered into American economic, political, and social life, to an unparalleled extent. This great corporation as a productive power we have already considered. We have seen that it can produce at a lower cost than can the small producer. It converts its raw material entirely into finished product, and none of it is wasted. The small producer makes only a few products out of his raw material and allows much of it to go to waste. The large corporation also, for the most part, makes use of specialized and efficient skill and machinery in the manufacture of its goods. It likewise makes a great saving in the advertisement and sale of its products. The small competing producers send many agents and circulars into the same field, and duplicate much space in the columns of the newspapers. The large corporation sends only one agent and pays for only one space in the advertising columns. The small producer buys and sells in small quantities, and must consequently pay small package transportation charges. The large corporation buys and sells by the car load, and saves much in freight and transfer costs. The large corporation, with more or less exclusive control of a certain line of production, can, therefore, produce its prod-

ucts at a lower cost per unit of products. If it sells them to the consumer at the same price that the small producers are compelled by the cost of production to charge, the large producer makes great profits.

**Monopoly Management and the Distribution of Wealth:** (1) *The Consumer*. — But how does this large monopolistic producer actually treat the consumer of its products? It can produce them at a low cost. Will it also sell them at a low price? This, of course, depends upon the conditions of the market of these products, and also upon the character and foresight of the management of such a corporation. The manager who thinks little of the future of his business will sell for the time at that price which will bring him the greatest net returns or profits; he will sell at the highest possible price.

The producer, whether monopolistic or competitive, is, however, only one party to a price. The price of every product is, as we well know, the result of an agreement between the consumer and the producer. If the producer fixes the price of a goods at a high point, the consumer will buy a smaller quantity of this goods. If the producer charges a lower price, the consumer will buy more. The amount of this elasticity on the part of the consumer's demand, in consequence of a change in the producer's price,



varies. And its variations depend greatly upon the nature of the goods, as to whether they are more or less necessary to the consumer. The manager, even though he is striving for immediate maximum returns, is, therefore, greatly influenced by the consumer, both in respect to the price which he asks and the quantity of the goods which he produces.

That manager of a great and monopolistic corporation, who on the other hand aims for maximum returns in the future, as well as in the present, will deal much more kindly with the consumer of his products. He will do far more for him than will the short-sighted manager; he will furnish him with a sufficient supply of goods and at a more moderate price. And, if this manager is in a field of production which is subject to the tendency of decreasing costs, if the more he produces the less per unit of goods it costs him to produce them, he will treat the consumer in a still kinder manner. He will sell him goods at a lower and lower price. In such a field the manager desires to produce as great quantities as possible; it costs him less and less per unit of goods the more he produces. He also desires to sell more and more.

The great monopolistic manager produces at a lower cost, and he will in the main, it seems to us, sell his goods at a lower price. The

power which the great corporation producer has over the consumer, while it is extraordinarily great, is not infrequently used for the benefit of the consumer as well as of the producer. There are, it is true, a few monopoly managers who really and truly rob the consumer, but as we see it their number is by no means great.

**Monopoly Management and the Distribution of Wealth: (2) *Labor, Land, and Capital*.**—In what manner does this wonderfully great manager treat the other agents of production? Such a management exercises a mighty influence over labor, land, and capital. It is a great factor in their market. Does it use its position of advantage to drive hard bargains with these agents? Does it give to them some of its clear profits? While the monopolistic manager wields a mighty power, we believe that upon the whole this power is not used to the disadvantage of labor, land, or capital.

That the manager desires to buy the use of his agents of production and his raw material at the lowest possible cost, no one will deny. He is just as desirous of buying these commodities at a minimum price, as he is of selling his own finished products to the consumer at a maximum price. He works for greatest net profits in either case, just as does any producer, whether small or large. But is it really most

economical for him to offer the minimum rate of wages, rent, and interest? We have already shown, as we believe, that the monopolistic manager finds it a matter of his own profits to take into his consideration the welfare of the consumer, at least to offer him goods at a rate which will bring to the producer the greatest net returns.\* We also believe that the monopolistic manager will be compelled, in the main, for the sake of his profits to offer to labor, land, and capital, as well as to raw material, a price which will cause them to sell their services to him. In actual practice, we find that not a few of the largest managers pay fair wages, rent, and interest, as well as fair prices for the raw material out of which they make their finished products. No one will deny that some of these managers use their great influence to drive hard bargains with all the other agents of production, and also with the producer of raw material. The number of such managers is, however, very small.

**Monopoly Management and the Distribution of Wealth:** (3) *Other Managers in the Same Field.*—The use which the great corporation manager makes of his mighty power over the consumer of his products and over the other agents of production, while in some respects unjust and tyrannical, while in some respects like

that of the robber, is far the larger part fair and friendly. Great rewards, it is very true, are obtained by these producers, but they also possess wonderfully great productive power. They are great producers, and their pay should be correspondingly great. They at times also receive enormous profits, but they must at other times bear great losses. Their profits for the most part are, however, much greater than their losses. Of these clear gains they keep a large part for themselves, but they also divide both with the other agents of production and with the consumers of their goods. But the conduct of the great corporation manager toward his rival producers is, on the other hand, much less friendly and fair. Not infrequently does this rivalry assume the spirit of trickery and war. It should, however, be said that rivalry between two individual producers, or two small corporation producers, at times assumes a spirit of meanness and unfairness not to be excelled. But in either case such spirit is to be disapproved and condemned.

**Monopoly Management and the Distribution of Wealth:** (4) *The Small Stockholders*.—In this great joint stock corporation there are thousands and thousands of stockholders, both large and small. The actual management is, however, carried on by a very few stockholders whom we

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call the directors and the president. Much of the capital of this great corporation is supplied by men who know exceedingly little of its administration, and who, by virtue of the loose corporation laws of several of the American states, are not able to find out many of the facts of the business or of its management.

These few men in their administration can, and not so infrequently do, carry on the business largely for their own individual interests, irrespective of the interests of the body of stockholders. And at times the managers gamble in the stocks of their own corporation, for their own personal gain and to the loss of the small holder of stock. They also at times overcapitalize their enterprise, from two to five times its actual earning capacity, and offer this watered stock, upon which dividends can never be paid, to an ignorant public. Such conduct as this is, however, not necessarily inherent in the great industrial organizations. If we had a system of strict corporation laws, as have several of the European states, such conduct would be impossible. The small stockholder and investor unquestionably have the right to know the chief facts of the business and the conduct of its managers, and it is the duty of the state to make it possible for them to know these facts.

*D. Legislation and Monopoly Management*

**The State and the Distribution of Wealth.**— The state, as we know, takes some part in the distribution of wealth into labor, land, capital, and business management. The legislation which the state has enacted in reference to the first three of these agents and their earnings we have already considered. It is now necessary for us to discuss the legislation in reference to business management of the large type. Management, when organized upon a small scale, is supposed to be self-regulative, and its abuses are thought to be largely eliminated by the working of the principle of competition. But management upon a large scale possesses such a mighty power over the consumer and the other agents of production, and this power has at times been abused, that each of the leading nations has enacted a considerable body of laws either for its destruction or its regulation. We have said under Section II that management upon a very large scale has in the main been along the line of certain manufactures and along the line of transportation. We shall now speak especially of the legislation of our own country in reference to these two lines.

**Legislation and Monopoly Management in Manufacture and Transportation.**— As we have

already seen, the American tendency to business management upon a larger and larger scale has within the last quarter of a century been exceedingly strong. Within this period we have enacted a large body of monopoly legislation, which in popular speech is called anti-trust legislation. And practically all of these laws have been passed for the purpose of destroying such forms of business management. These forms have come into existence within such a marvelously short space of time, and their power in the distribution of wealth has been so wonderfully great, that they have seemed monster-like in the minds of the public. They have appeared as monsters not only in the economic aspects of our life, but also in the political, social, intellectual, and religious phases of our life. The fact that they possess wonderfully great power in the production and distribution of wealth, and that this power has at times been employed for the oppression of others, has brought upon them wholesale public condemnation. And the fact that some of our states have, by charters, granted to the managers of these great organizations the legal right to carry on a business, in which the small stockholders and the public are vitally interested, in practically a secret way, has had much to do in causing the American people not only to condemn them but also

to attempt to destroy them. Their numerous points of great advantage have in the public eye been overlooked. Their few deeds of oppression and wickedness have been talked of and thought of until the large corporations loom up before the public mind as the very "monsters of iniquity." In the eyes of this public, they are corporate beings in whom there is no soul, though in fact some of their managers have as noble souls as the economic realm can anywhere supply.

**State Anti-Trust Legislation a Failure.** — Under such public feelings, more than thirty of our states, as well as our national government, have passed laws called anti-trust or anti-monopoly laws. These laws have been passed for the purpose of the destruction of such business management as is upon a large and monopolistic scale. And these acts, though new in their form, are based upon principles which are very old. For almost eight hundred years the common law of the English people has forbidden any business management which restrains and eliminates competition in production. When the American states are legislating for the destruction of monopolistic management, they are really giving definite statement to an old English idea.

But what has all this legislation for the



purpose of forbidding and destroying management upon a large and monopolistic scale accomplished? Such forms of management have wonderfully grown and multiplied in the very face of this legislation. The anti-trust laws which are upon the statute books of more than thirty of our states have, as we well know, been practically of no avail. Many of them, it must be confessed, were enacted largely for sentimental reasons. They were not based upon sound and practical principles of business life. *If these laws had been passed with the view of regulating such forms of management, not of destroying them, much more, we fully believe, would have been accomplished.* To attempt by legislation to destroy an institution, which possesses many points of great advantage to a people, is practically impossible. The regulation of the abuses of such forms of management by means of legislation is, on the other hand, both a very proper and a practical thing. Business management on a large scale, as we have seen under the head of production, possesses too much productive power for any people for them to destroy it. And the sooner our legislation is changed from the idea of destruction to that of regulation, the sooner will the control of the state over the great and powerful monopolistic producers become effective.

There is yet another reason why the anti-trust laws of our states have been of little avail. While more than thirty states have legislated for the destruction of monopolistic management, New Jersey, Delaware, and West Virginia have by their corporation laws stimulated the formation of such organizations. In fact, almost 95 per cent of the so-called trusts, which are now in operation in our whole country, have received their legal rights and privileges by charters from these three states. And the conduct of monopoly management has been for the most part legal; it has been according to its charter. The courts of the states which have enacted anti-monopoly legislation have been inclined to act according to judicial courtesy and to accede to the rulings of the courts of the states which have granted the charters. This legislation has not, therefore, been enforced by the courts. The corporation laws of our states differ so widely that it is practically impossible for the individual states to enforce anti-trust or anti-monopoly legislation. *The states must make their corporation laws uniform*, or their control over the great monopoly producer, who carries on business throughout our vast country, will continue to be exceedingly ineffective.

**National Anti-Trust Legislation largely a Failure.**—Legislation on the part of the states

against the great corporations has completely failed. The national government now feels called upon, by public opinion, to undertake the matter. This opinion now demands that our federal government destroy and prevent such forms of management. And our federal government undertook such a task in 1890, and the national anti-trust act, popularly known as the Sherman law, went upon the statute books of the American nation. But through a period of fifteen years this act has remained largely inoperative. For eight years it was thought to be unconstitutional, and during this time it was, of course, wholly inoperative. It was then by our courts declared to be constitutional and enforceable, but we then allowed it to remain without enforcement for five more years. Since 1903 we have, to be sure, done something toward its enforcement, but it has been very little. According to this act, all organizations upon a large scale, which restrain or eliminate the principle of competition, are illegal and shall be destroyed. But still such forms of management have grown with wonderful strides, and in the very face of a federal act forbidding them! Federal legislation for their destruction has, just as that of the individual states, almost completely failed.

**Need of Uniform Corporation Laws, Publicity**

of the Facts of Management, and Practical Regulation. — It is now necessary for us to change the basis of our legislation. Legislation by the federal government, as well as by the states, to be effective, must be along the line of regulation, not of destruction. There must also be great changes in our corporation laws. We need one unified system of such laws, as some of the European states have, instead of many different systems. Publicity of the chief facts of all forms of management should be required, so that the producer who would compete may act in the light and not in darkness, so that the smaller stockholder, the consumer, and all the other agents of production may know of the business and its management. Such a requirement would greatly eliminate the gambling in stocks by the managers, and would, therefore, cause the business to become more stable. Such a requirement of publicity would likewise eliminate much of the vast quantity of water which now thoroughly saturates our stocks. The investor would then know what is real and what is fictitious in the stocks of the great corporations, and he would pay a price accordingly. He now buys these stocks in uncertainty and in ignorance. Something along the line of publicity is now being accomplished by our national and state bureaus of corporations, but as yet our

regulation of the great corporations has, upon the whole, failed. The individual states working by themselves have almost completely failed. The federal government, in connection with the states, has largely failed.

That these great corporations, which possess enormous power in the production of wealth, and especially in its distribution, should be under a sane and practical governmental regulation needs no argument. They unquestionably possess great productive power for the American people, and, while this power is oftentimes employed for the wealth and welfare of all the people, it is at other times employed purely for the benefits of the individual managers. What the fairest and most practical form of this governmental regulation is we do not yet know. A thorough-going system of sane and practical regulation of business management upon a large and monopolistic scale is yet to be worked out. This regulation cannot, of course, be accomplished by a method which is based upon sentiment. It must be for the sake of all the parties concerned. And it must not destroy the better parts of such management; it must not destroy its productive power. But the abusive and oppressive use of this power should be eliminated by this governmental regulation.

The proposed method of requiring all large

organizations of business management to take out charters from the national government, as well as from the individual states in which they operate, has much in it that is deserving of most careful consideration. This requirement would certainly tend to create a uniform body of corporation laws in all of the states, and this is highly desirable. It would likewise specifically confer upon the federal government the legal right to exercise a control in the affairs of all the great corporations. It is very clear that, in our own country at least, both the national and the state governments should take a part in the regulation of the abuses which come from the great and monopolistic corporations. Under our present system there is no uniformity. There is great conflict of authority between states and states, and also between the national government and that of the individual states. And under such a system governmental regulation must be, to say the least, most chaotic and inefficient.

### QUESTIONS

(1) Why is one man paid \$1500, in annual salary, for his business management? Why his neighbor \$50,000?

(2) Who assumes the risks of a business? the laborers? the managers?

(3) Who receives the profits of a business? Do they go to labor, land, capital, as well as to management?

(4) Who bears the losses of a business? the management? labor? land? capital?

(5) Does the monopoly manager deal fairly in the distribution of wealth into wages, rent, interest, and pay of business management?

(6) Does he deal fairly with the consumer of his goods?

## CHAPTER VII

### DISTRIBUTION OF WEALTH: THE STATE

**The State in the Production of Wealth.**—Of the state as a producer of wealth we have already spoken. We have seen that the state, by the protection which it renders to the lives, liberties, and properties of the individual producer, creates fundamental and vital conditions of wealth production, and indirectly produces wealth and welfare. We have also seen that the state, by its educational, industrial, and commercial policies and methods, directly produces the conditions of wealth and welfare. Though these utilities which the state creates are in many cases not of a material and tangible form, nevertheless they are of enormous value in the production of those utilities which are of a more material and concrete form.

**The State in the Distribution of Wealth; How Much should it Receive?**—The state plays a great part in the distribution of wealth as well as in its production. Of its influence in the distribution into wages, rent, interest, and pay of business management, we have already spoken.



But what part should the state itself receive of every product of the economic realm? According to our standard, it should receive the exact amount of value which it creates or produces, no more and no less. For the state to take in taxes or other forms more of each product than it really produces in that product, is for the state to rob the individual. On the other hand, it is equally true that the individual robs the state when by any means he does not pay into the state as much value as it creates in each of his products. Our standard of value for value added is universal. It applies to all social, intellectual, and religious organizations, as well as to all economic institutions. It applies to the individual worker, whether he produces raw wheat or cotton, whether he creates pieces of art, music, and literature, or whether he seeks after the great truths of nature, man, and God. It likewise applies to all the countless organizations of the individual.

But does the state ever receive in the distribution of wealth more than its own specific product? By virtue of its great position of influence over the individual, it unquestionably possesses the power to take more than its own part. Its power of taxation is in some respects absolute. The exact extent to which this enormous power of the state is employed depends

largely upon the character of the people of a state and upon the form of their political organization. In Russia, for instance, the state may very easily take more than the part which it produces, for the great masses of Russians have no influence whatever in their government. In England or the United States, on the other hand, it is much more difficult for the state to take in the distribution of every product a part which is larger than that which it creates. In these states all the people exercise a power, direct or indirect, in the government. But even in some of our own municipalities and states, which in theory are thoroughly democratic, the government takes more than it actually produces. In these cases the individual citizen is himself responsible, mainly because of his indifference to either good or bad government; and he at times allows himself to be robbed by the political leaders.

**Efficiency of the State and the Quantity of Wealth it Receives.** — As we have already seen, the pay of the individual worker, whether he be a simple laborer or a great business manager, is regulated by his inherent power and by the conditions of the supply and demand of the labor of his special grade. But the productive power of the state is not at all subject to the conditions or changes of the market. Its supply is

practically permanent, and its services are largely, if not wholly, monopolistic. The state has no competitor whatever when it supplies government service to a people. The productive power of the state depends, therefore, entirely upon its own efficiency, and its pay should always be in strict proportion to this efficiency.

**State Control in Economic Life; How far. —**

That the state should exercise some control in the production, and especially in the distribution of wealth, follows from the very nature of wealth and welfare. Man as an economic being is both an individual and a part of a larger body which we call society. In the consumption of wealth he is more individualistic, or at least may be, than he is in its production and distribution. But in all the aspects of his economic life he is greatly influenced by his social surroundings; he is profoundly influenced by the society which surrounds him and of which he is in part the maker. How far he should be allowed by this society to be individualistic, this is the great and constant question. Every people is always struggling over this ever-vital question and the answer is never final.

**Two Extremes: State Control or Complete Individual Freedom. —** We may at one time have a great amount of state control of economic

life. The state may regulate wages, rent, interest, and the pay of business management, as well as the part which it itself receives from the industries of its citizens. It may direct the channels of manufacture, transportation, and commerce. The state may also at times not only regulate economic life but also dominate it. But such extreme state regulation and control of the production and distribution of wealth takes away from the individual much of his desire to put forth great activity and effort. It saps his vigor and deadens his ambition to accomplish things. Under such a dominating influence economic life is never very active, nor is it many-sided. In a country like Russia or Turkey, where the individual is in a large sense a servant of the state, if not indeed a slave, economic life is, at best, only one-sided. It is never thoroughly or completely developed. Too much state regulation and control in the industries not only dwarfs the economic life of a people, but also decreases its wealth and welfare.

The other extreme is equally detrimental to economic life and progress. Among a people whose government stands aloof and permits the individual to enjoy almost complete freedom to act as he pleases, anarchy is the prevailing condition. Under such a government, the strong man employs the weak, but pays him the

minimum of wages and works him under the most unwholesome conditions. The principle of competition may at times bring some relief, but this very principle may at other times become a savage and brutal one. Adam Smith, in his famous and immortal book, *The Wealth of Nations*, went too far in the direction of industrial freedom to the individual. His position was the result of an extreme reaction. His book appeared at a time, in 1776, when much of the world was longing to be free from the oppression and interference of the state. For centuries and centuries the individual in all the aspects of his life had been largely dominated by the government, in the making and administration of which he had exceedingly little part. He now yearned to be free not only in his political, social, intellectual, and religious aspects, but also in his economic. The government, of which he was practically no part, must cease to regulate him and dominate his activities and efforts.

Adam Smith gives voice to this deep longing for a greater and greater freedom to the individual in his economic life. The English and American peoples give heed to this voice, and the state ceases to dominate their economic activities. As they see it, wealth and welfare can more easily be produced under a

régime of freedom than under that of state control. The government, especially in England and the United States, grants greater freedom to the individual producer. Its control over wages, interest, and the pay of management almost entirely ceases to be operative. The state no longer directs the channels of manufacture and trade. The business manager, who is now allowed practically perfect freedom, grows rich within a few months, but his employees are compelled to work for long hours and small wages, and under unsanitary and dangerous conditions. With not even regulation on the part of the state, this manager adds enormously to his own wealth, but it is largely at the cost of welfare to his employees.

Complete economic freedom to the individual enables the strong to grow rich and powerful, but it diminishes the welfare of the masses. Let us examine a few illustrations. Complete freedom to the individual to coin money adds to the wealth of a few, but the great variety of money which comes in consequence hinders industrial and commercial life beyond calculation. Perfect freedom to the individual in banking has many a time demonstrated to the whole world its great hindrances and evils. "Wild-cat" banking is only too well known, and no sane man thinks of absolutely perfect

freedom to the individual along this line of production. Neither can the state allow perfect freedom to the individual to carry on manufacture and transportation, and to employ the productive power of these for his own private wealth and at the cost of the public's welfare.

Rigid state control of the industries of a people is a great obstacle to their progress. Complete individual freedom in economic life is equally a great hindrance. They are both extreme methods. They must each be modified and combined with the other before they can bring to a people maximum benefits.

**Individual Freedom under State Regulation the Ideal.** — In many aspects of his economic life, the individual should enjoy a great degree of freedom. When possessed of such freedom he puts forth his greatest activity and effort, and his society, as well as himself, receives the benefits. But in many other aspects of his economic life he should be under state regulation. The state, not the individual, should maintain uniform standards of weights, measures, and money. The wealth and welfare of the whole society absolutely demand that these standards be not left to the individual to regulate; their uniformity is of too fundamental and vital importance to all of the people. The individual should, on the other hand, have the

freedom to undertake agriculture, mining, manufacture, transportation, or commerce, of any form and upon any scale. But the method by which he carries on these groups of production, and especially the manner in which he distributes the values of their products, should at all times be under sane state regulation. The individual should have the perfect moral and economic right to distribute the values of his products into wages, rent, interest, and the pay of management, according to the productive power of each of the agents that produce these products. He should also have the perfect moral and economic right to sell his products to the consumer according to their values and according to the conditions of their supply and demand. So long as the individual so acts in the sale of his products and in the distribution of their values, the society in which he lives and labors has no moral or economic right to restrict his freedom. With such conduct on the part of the individual, whether it be voluntary on his own part, or whether economic forces compel him to so act, the state has no right to legislate in any manner which will directly or indirectly take from his liberty. Liberty under such conditions is a great and mighty power for good. Under its powerful stimulus the wealth and welfare of all are wonderfully increased.



When, however, the individual does not act, or is not compelled by economic forces to act, according to such a standard of distribution, the state must restrict his freedom. When the economic forces cannot regulate themselves in a manner that will bring wealth and welfare to all, the state should regulate these forces. And such regulation, if sanely and fairly done, becomes a great power of benefit and blessing to all. Governmental control and regulation of the individual who has committed no economic or moral wrong, saps and deadens the vital economic force of a people. But governmental regulation of the individual who has transgressed his own privileges and his society's sacred rights causes this vital economic force to be wonderfully multiplied.

### QUESTIONS

- (1) How much of your wealth should the state receive ?
- (2) How far should the state regulate and control you in your business activities?

## APPENDIX

### COURSE OF READINGS

FOR the sake of simplicity, only a few books are placed on our list. For a more complete list the teacher and reader are referred to the following works: *The Reader's Guide in Economic, Social, and Political Science*, by Bowker and Iles (Putnam's Sons, N.Y.); *Outlines of Economics*, by Ely (Macmillan, N.Y.); *Introduction to the Study of Economics*, by Bullock (Silver, Burdett & Co., N.Y.); *Introduction to Economics*, by Seager (Holt & Co., N.Y.); *Principles of Economics*, by Seligman (Longmans, Green & Co., N.Y.).

### THE HISTORY OF ECONOMICS

Ingram, J. K.: *History of Political Economy* (Macmillan, N.Y.)

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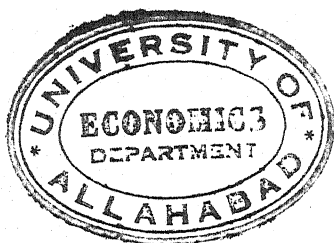
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